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San Francisco Local Agency Formation Commission

City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102-4689
Tel. 415.554.7702
Fax. 415.554.5163

AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

Special Meeting
Friday, January 11, 2002 at 1:00 p.m.
City Hall, Room 263

Members: Commissioners Ammiano, Gonzalez, and McGoldrick

Clerk: Monica Fish

DOCUMENTS DEPT.

SPECIAL AGENDA

(There will be public comment on each item)

JAN - 7 2002

1. Call to Order and Roll Call

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2. CLOSED SESSION (Continued from November 16, 2001).

CONFERENCE WITH LEGAL COUNSEL

Motion that the San Francisco Local Agency Formation Commission convene in closed session under the provisions of Government Code Section 54956.9(a): Winchell Hayward v. San Francisco LAFCO; City and County of San Francisco Case No. 324661, for the purposes of conferring with or receiving advice from legal counsel. Although the litigation was dismissed in November 2001, the case was dismissed without prejudice. At issue in the case was the challenge of payment to LAFCo consultant E. J. Simpson. Conference with legal counsel is necessary to discuss status of payment negotiations with consultant.

Question: Shall this Motion be ADOPTED?

After a closed session, if one occurs, the Chairperson shall (1) request the Legal Counsel to identify the subjects discussed in the closed session, and (2) direct the Clerk to report the vote taken on any motion in the closed session.

[Elect To Disclose]

Motion that the SF LAFCO finds it is in the public interest to disclose information discussed in closed session, and directs the Chairperson immediately to disclose that information.

[Elect Not to Disclose]

Motion that the SF LAFCO finds that it is in the best interest of the public that the Board elect at this time not to disclose its closed session deliberations concerning the litigation listed above.

3. Approval of Minutes of the Commission Meeting of November 16, 2001.
4. Interview and possible appointment of Public Member. The candidate is Bernard Choden.
5. Election of 2001-2002 Officers for the San Francisco Local Agency Formation Commission (SF LAFCo). (Continued from the November 16, 2001 Commission Meeting.)
6. Resolution regarding SF LAFCo Budget/Revenue Understanding with the San Francisco City and County. (Continued from the November 16, 2001 Commission Meeting.)
7. Discussion and action regarding direction to the Executive Officer to reallocate the existing budget to provide for appropriations for consultant services and additional temporary staff support. (Continued from the November 16, 2001 Commission Meeting.)
8. Recommendation and action regarding the SF LAFCo Subcommittee recommendations on scoping of issues for a Request for Qualification (RFQ) to provide data and information to the Commission on public power options, including scheduling possible hearings at the SF LAFCo on public power options. (Continued from the November 16, 2001 Commission Meeting.)
9. Recommendation and action regarding direction to the Executive Officer on the selection of a consultant(s) to assist on scoping of issues and providing data to the Commission on public power options including participating in possible hearings at SF LAFCo on public power options. (Continued from the November 16, 2001 Commission Meeting.)
10. Discussion and action regarding recommendations, options, and alternatives for the "Shadow MUD".

12. Future Agenda Items
13. Public Comment on Items not on the Agenda
14. Adjournment

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee Clerk of LAFCo, San Francisco Board of Supervisors, 1, Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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Place, Room 244, by phone at (415) 554-7724, by fax at (415) 554-5784 or by email at
Donna_Hall@ci.sf.ca.us

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DOCUMENTS DEPT.

MINUTES

Special Meeting
Friday, January 11, 2002, 1:00 p.m.
City Hall, Room 263

FEB 11 2002

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Interim Chair: Commissioner Ammiano
Members: Commissioners Ammiano, Gonzalez and McGoldrick
Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Commissioner Ammiano at 1:02 p.m. .

Members Present: Commissioners Ammiano, Gonzalez and McGoldrick

Members Absent: None

2. CLOSED SESSION (Continued from November 16, 2001).

Public Comment

No Public Comment

Public Comment Closed

CONFERENCE WITH LEGAL COUNSEL

Motion that the San Francisco Local Agency Formation Commission convene in closed session under the provisions of Government Code Section 54956.9(a):
Winchell Hayward v. San Francisco LAFCo; City and County of San Francisco Case

No. 324661, for the purposes of conferring with or receiving advice from legal counsel.

Question: Shall this Motion be ADOPTED:

Commissioner Ammiano moved to take the agenda out of order, discuss Agenda Item 3 next, and move this item to the end of the meeting. Commissioner McGoldrick seconded. No objection.

3. Approval of Minutes of the Commission Meeting of November 16, 2001.

Commissioner McGoldrick moved to approve the Minutes of November 16, 2001; Commissioner Gonzalez seconded. No objection.

No Public Comment

Public Comment Closed

4. Interview and possible appointment of Public Member. The candidate is Bernard Choden.

Gloria L. Young, Executive Officer stated that the Commission has received one application from Bernard Choden for appointment as a public member.

Commissioner Ammiano stated that Bernard Choden is the only applicant, and that he prefers that there be a range of applicants for this position. He stated that LAFCo might be embarking on a feasibility study, and that an outreach be done to obtain the necessary expertise. With the compliance of the other Commissioners, he would like to continue this item to the next meeting after an extensive outreach. Mr. Choden would still be in the running after an outreach has been done.

Bernard Choden stated that organizational feasibility happens to be his professional specialty. It has been the lack of that specialty on the Commission that has been one of the largest problems. What is the best means of delivering energy despite the various conflicts that are basic to the pursuit of energy such as water and energy, tangible needs, public goods that benefit the public as a whole versus specific benefits such as cost, and the environment versus cost? A feasibility specialist has to deal with consequences, probability, and industrial complex analysis. There is nobody in government at this moment that has the scope or integrity that he would bring after further expanding a search that has been going on for two months and would stymie the Commission. If there are personal difficulties, he would bow out. If the Commission is looking for expertise with integrity, then they need somebody on that side of the table now in order to not pursue feasibility studies by consultants who may be prejudiced in pursuit of other contracts. He fully respects that the Supervisors have little time and broad agendas, and he would not continue the agency for the purpose of looking at other aspects of its purview.

Public Comment

Richard Ow stated that he has known Mr. Choden for many years and he is a public-minded person. He works very hard for MUNI, and there is a slight improvement that he should get credit for. Mr. Choden is an early supporter of public power and believes that he has done a lot of work for Propositions F and I. Mr. Ow supports Mr. Choden as the best man for the LAFCo public member vacancy.

Public Comment closed.

Commissioner Gonzalez asked about the timeframe that the Commission has to appoint a public member.

Gloria L. Young, Executive Officer proposed March 1st as the next meeting in order to have an extension of application time to February 15th, or it could be later depending upon whether additional outreach is done.

Commissioner Ammiano stated he would like to meet sooner.

Commissioner Gonzalez recommended that the Commission meet in February.

Gloria L. Young recommended Friday, February 15th. The deadline for the applications could be set for February 6 or 8.

Commissioner McGoldrick stated that he could not attend the February 15th meeting.

Gloria L. Young recommended Friday, February 8th and asked the Clerk if the deadline stated on the advertising of applications to be received could be February 1.

Monica Fish, LAFCo Commission Clerk concurred.

Commissioner Gonzalez asked the Executive Officer what qualifications she thinks the Commission should be looking for.

Gloria L. Young stated that the requirements are identified in the Cortese-Knox-Hertzberg Act. She believes the Commission needs an individual who is interested in participating, available, and has the discretion and discernment in assisting the existing Commissioners in the decisions that the Commission has to make in the next couple of months with respect to what we are going to do with the "Shadow MUD," scoping of issues, and looking at the feasibility of providing energy. Their ability in having strong utility experience and knowledge is critical. The Commissioners need to determine what area is missing from their collective knowledge and determine what to add in order to complete the Commission.

Commissioner Gonzalez stated that the Commission needs a fourth member of the Board.

Gloria L. Young stated that Supervisor Hall has indicated that he may be interested. A meeting will be set up for further discussion.

The Commission agreed to establish February 8th as the next meeting of the SFLAFCo.

Commissioner Ammiano moved to continue this item to the February 8, 2002 meeting and interview whoever else may apply. No objection.

No Public Comment.

Public Comment Closed.

5. Election of 2001-2002 Officers for the San Francisco Local Agency Formation Commission (SF LAFCo). (Continued from the November 16, 2001 Commission Meeting.)

Commissioner Ammiano stated that because of the lack of applicants for a public member, this item should be continued to February 8.

Commissioner McGoldrick asked if the Commission is allowed to proceed without appointed officers according to the LAFCo rules.

Nancy Miller, Esquire stated it is legal to proceed with an interim Chair.

No Public Comment

Public Comment Closed

6. Resolution regarding SF LAFCo Budget/Revenue Understanding with the San Francisco City and County (Continued from the November 16, 2001 Commission Meeting)

Nancy Miller, Esquire stated that this Resolution is attempting to define the process from which funds are released from the Board of Supervisors. There has been discussion between the Executive Officer and staff regarding a procedure. This is unusual because you are a consolidated City and County. Normally the funds are directed to LAFCo. Here there is a process that is desired to be put in place by LAFCo and the Board of Supervisors where there is an approval process. We put in the request, the Board of Supervisors sees it, approves the request, and the money is released. The second need for the Resolution allows the Executive Officer to move money within budget items in the event of a shortfall in one item to

transfer to another item with full disclosure in reporting to your Commission prior to doing so.

Commissioner Gonzalez stated that he understands that if the LAFCo as a state agency makes appropriation decisions, that the City and County is essentially liable for those decisions.

Nancy Miller, Esquire stated that was true. LAFCo has a budget and cities, counties, and special districts put money into the budget that becomes the LAFCo budget to do what it deems necessary in accordance with its adopted budget.

Commissioner Gonzalez asked what would happen if this state Commission would spend money in excess of its budgeted amount.

Nancy Miller, Esquire stated that the LAFCo would then be in a deficit which would have to be rolled over into the next budgetary year. The Commission has no ability to assess additional funds. The Commission could hold another hearing with the City and County and request additional funds, but would have no ability to demand it. There are emergency provisions that are available in case of issues such as lawsuits.

Commissioner Gonzalez asked if legal counsel could state the rules for the Executive Officer.

Nancy Miller, Esquire stated that the first rule is that the Executive Officer will request funds from the City and County of San Francisco in amounts not to exceed the adopted budget . The second rule is that the Executive Officer will then request concurrence by the Board of Supervisors for such funds and their concurrence may not be unreasonably withheld. Upon concurrence the funds are transferred. The third rule would be that the Executive Officer may reallocate funds received in the event of an increase and decrease in certain budgeted items, and in no event shall the overall budget amount be exceeded without prior amendment by both this LAFCo and concurrence by the Board of Supervisors.

Gloria L. Young stated that the LAFCo was formed in 2000 and the \$754,250 that was approved by the Board of Supervisors was set in a separate sub-account. What has occurred over the last two years is that that account has remained the same and has been reduced by the expenditures that this Commission has incurred over the last two years. That budget has not been replenished. Currently, there is \$364,000 still in reserve, and the existing operating budget balance is approximately \$125,000. Depending upon the longevity of LAFCo, there is a legal requirement that by June of this year LAFCo hold a public hearing to adopt a budget. That process was held last year but was not reflected in the budget adopted by the Board. One change was included with respect to the stipend that the Commissioners received.

Commissioner Gonzalez asked if LAFCo would be bound by this Resolution if adopted. He stated It would seem that as a state entity, to the extent that the City and County makes an appropriation of a LAFCo, the Commission can spend the money. There may be natural constraints related to having to go back for a supplemental appropriation or to keep the Finance Committee informed of what is going on. Having been a member of the Finance Committee, it does not make sense that a Commission that is going to include four members of the Board has to go get approval from three members of the Board.

Gloria L. Young stated that this response was made because of a direct request by the Finance Committee to the SFLAFCo Executive Officer. At the time, we brought before the Finance Committee a requirement to get some funds from the reserves to pay for the services of the City Attorney's Office, outside counsel, and the consulting contract. The Finance Committee requested that the Executive Officer provide a formal relationship between the Board of Supervisors and LAFCo. This was directed and approved by the Finance Committee, and subsequently, the proposal allows an opportunity for the Commission to either adopt the process or not.

Commissioner Gonzalez stated that the discussion that took place at the Finance Committee was prior to the discussion that took place at the full Board where the City Attorney, Mr. Delventhal, explained and made clear that this idea that the LAFCo is going to be treated like a City department that is asking for a release of funds that have been put on reserve is not really the dynamic that is going on between a State Commission and the Board of Supervisors. He found that advice to be compelling. The rules that should be put in place should be about informing the Finance Committee or other colleagues of the Board of Supervisors when action is taken in either changes in the LAFCo budget or in the appropriation of certain dollars. A scenario of the formal requirement that we go to the Finance Committee before releasing money would slow down the Commission's ability to take action. The Finance Committee is trying to put together rules with City Departments whereby they don't spend money and then ask that money be released. He stated that the state Commission be given different consideration because of the nature of who is on the Commission and the nature of the Commission as a state agency.

Gloria L. Young stated that she concurred with Commissioner Gonzalez. Deputy City Attorney Delventhal agreed that if the Commission and the Board chose to have a resolution that represented their relationship, that was between the Board and the Commission.

Public Comment

Bruce Brugman, Bay Guardian stated that it is critical that the Commission not take any action that precludes paying for a consultant and a proper feasibility report. The report that R. W. Beck is doing for East Bay MUD costs \$400,000, is due at the end of this month, and is a nine- or ten-month project. To have a feasibility study

done and to have a consultant in place to defend and explain it considering it will be on the ballot again in the Fall, does not present a large window of opportunity. He urges the Commission in going through these procedures to do everything they can to move the process along expeditiously with adequate funds.

Public Comment Closed

Commissioner Gonzalez stated that in a given year, the Commission is not going to meet that many times. When making a decision about the appropriation of money either to hire counsel or to engage consultants, the Commission does not want to be put in a position to have to send an item to Finance. The Finance Committee may want to continue the item to get up to speed with the specific issues that the Commission is dealing with and would have to give approval before the Commission can move. He has no problem adopting rules that require the Commission to remain within the budget that is allocated by the Board of Supervisors that requires our Executive Officer to inform all of our colleagues including the Chair of the Finance Committee of any action that the Commission is taking.

Commissioner Ammiano concurred.

Commissioner McGoldrick stated that this Commission has the authority to expend funds, and that the City and County of San Francisco would be in the position to pay for those funds.

Nancy Miller, Esquire stated that the Commission does not need to seek concurrence from the Board of Supervisors. She stated that by deleting Number 2 of the Resolution, the Commission would accomplish their intent.

Commissioner Gonzalez asked if Number 2 could be moved to the bottom and that way we give notice of transfer of funds or reallocation of funds, and that the notice should go to all the members of the Board and the Clerk of the Finance Committee.

Nancy Miller, Esquire stated that number three, the third line of the Resolution would read "shall report such transfer or reallocations of funds to SF LAFCo, the San Francisco Board of Supervisors, and the Clerk of the Finance Committee."

Commissioner McGoldrick asked if the Commissioners should take those actions rather than the Executive Officer.

Gloria L. Young stated that her concern is that we are paying two outside consultants with a small budget. Depending on the activities that LAFCo has, there may be a need to transfer funds within our existing available balance in order to make sure we can pay them in a timely manner. Right now, the Commission is operating under the \$125,000 that is in our available balance, and our reserve would have to go back to the Board and the Commission for approval to have any

other transfers and then to the Board to have those funds released. We have performed a good job in maintaining the funds for two years within a small limited budget, and any changes would be brought to the full Commission unless otherwise authorized.

Gloria L. Young stated that the \$364,000 is out of the total budget of \$754,000 which the Commission has been operating out of for the last two years. The Commissioners will get an expenditure report as to what those costs have been charged to. We do have some obligations under that \$125,000 for temporary services, fringe benefits, and materials and supplies. Depending upon the urgency to pay our legal counsel or start a process in terms of advertising or publishing whether it's RFQ's etc., it is necessary that we have flexibility to move those dollars until we can come back and ask for a release of reserves.

Commissioner McGoldrick asked why the full amount is not available and why part of it is called reserve.

Gloria L. Young stated that when the LAFCo first came into existence in 2000, the Board of Supervisors provided for a modest budget to begin the operation and to look at a scope of services study with respect to the MUD. So they released \$254,000 and kept approximately \$500,000 in reserve. About five months ago, she went before the Finance Committee after coming to the Commission for approval and requested additional funds from the reserve to pay an outside consultant and to hire legal counsel. It is an action that has to go back to the Board because the Board put those funds in reserve.

Commissioner McGoldrick stated that it is money that is appropriated, but not allocated.

Gloria L. Young stated that was correct.

Resolution adopted as amended. No objection.

7. Discussion and action regarding direction to the Executive Officer to reallocate the existing budget to provide for appropriations for consultant services and additional temporary staff support (Continued from the November 16, 2001 Meeting).

Commissioner Ammiano stated that the Commission should defer any large expenditures because they want to retain as much as possible for the potential costs of a professional feasibility study.

Gloria L. Young stated that this action is associated with if the Commission wanted to go ahead with the scoping and the RFQ for services to assist with providing the Commission with public power. Given our existing budget, we have the ability to reallocate those funds if we have support for that effort. We also made a request to get a release of reserves depending upon what our financial situation is. Currently

the Commission's budget calls for a half-time temporary position. What we did is have the Committee Clerk work a full time schedule over the last year because of the amount of effort towards the SF LAFCo MUD issue that was placed before the voters. We have expended those funds allocated for the temporary position for the half-time position, so we need to reallocate if the SF LAFCo plans to continue and if there is a need to have ongoing support in that area.

No Public Comment

Public Comment Closed

Commissioner Ammiano moved to approved this item; Commissioner McGoldrick concurred. No objection.

8. Recommendation and action regarding the SF LAFCo Subcommittee recommendations on scoping of issues for a Request for Qualification (RFQ) to provide data and information to the Commission on public power options, including scheduling possible hearings at the SF LAFCo on public power options (Continued from the November 16, 2001 Commission meeting).
9. Recommendation and action regarding direction to the Executive Officer on the selection of a consultant(s) to assist on scoping of issues and providing data to the Commission on public power options including participating in possible hearings at SF LAFCo on public power options (Continued from the November 16, 2001 Commission meeting).

(Both items will be heard together.)

Commissioner Ammiano stated that there has been talk of an RFQ process in order to get qualifications from energy consultants. A public meeting would be scheduled in which experts would advise the Commission as to what the scope of services should be. That is fine, but to allow for the time for a report to be completed by June, a public meeting to discuss scoping should occur in February. The Commission should then be prepared to direct the Executive Officer to issue a Request for Qualifications at that February meeting. His office has been in touch with Mr. Smeloff and the PUC, and he has agreed to review the scope of services as it stands now, to take into account the energy plan which is under development to comply with Supervisor Maxwell's ordinance, and to propose a scope of service for an independent consultant. He would like to ask that the Commission direct the Executive Officer to work with the PUC and the Department of Environment staff to develop a proposed scope of work for a Request for Qualifications, develop other documents required to issue the RFQ, develop a mailing list of qualified consultants, and to research other public notice requirements to report to the Commission at the February 8 meeting. In addition, in consultation with the attorneys, develop a draft bid package for LAFCo review at the February 8 meeting.

Public Comment

Ross Mirkarimi stated that he supports Commissioner Ammiano's sentiments with the resurgence of purpose for LAFCo in expediting an RFQ towards the implementation of a feasibility study so that the many of the supporters of public power are enabled to re-aim their focus and bring back to the voters in the near future the opportunity to decide for San Francisco's conversion for a municipal power. He supports this body and the Board of Supervisor's instincts in effectuating a feasibility study post-haste, so that it concurrently runs with overwhelming and important decisions that we witness in the Chronicle and the media about PG&E's existence as it stands today. As our campaign had projected and much of which is coming to fruition, we are seeing PG&E trying to broker its particular status so it circumvents state regulatory control by negotiating a deal out of bankruptcy so that an out of state unregulated utility company becomes the supplier and servicer to San Francisco City government. He thinks a feasibility study, once implemented, would affirm the protection of San Francisco consumers while PG&E's fate remains to be decided by both state and federal entities. He looks forward to supporting the Commission from a number of community advocate positions and looks forward to working with the Commission to make sure the feasibility study, public policy, and civic minded interests of San Francisco come to support the fruition of public power.

Bruce Brugman, Bay Guardian stated that he wanted to affirm what Ross Mirkarimi stated. He provided the Commission with the actual press release that came from the Attorney General's office because it raises a lot of issues as to whether the City and County of San Francisco should join in, when and how. The issues may not fall in LAFCo's jurisdiction, but is part of the context and background for the feasibility study. This is an extremely important and complicated study. As was found out in the last campaign, a good independent study to go up against the PG&E onslaught was needed. One of the reasons the measure was beat was because a feasibility study was not in place. He has been told by the public power people that have done these studies within the country that there are only a couple of firms that are really strong and qualified enough to take on this type of study and the fact that they will be facing a massive onslaught by PG&E. It is a firm that has done a lot of public power work that is on the web and is doing a study in Berkeley. At one time, it was the public power consultant to the PUC in San Francisco, who has credentials and previous history here. He urges the Commission to move expeditiously with the process. This is the key element of the oncoming battle to have a strong feasibility study with consultants who can stand by and defend their study here and in court.

Commissioner Gonzalez asked legal counsel to address this issue. He wants to make sure he understands the RFQ process and whether or not the process of doing this study should be a public process or a matter of turning it over to someone to bring the Commission a finished product.

Don Maynor, Esquire stated that he thought the Commission was going to conduct a series of hearings and at the same time hire a consultant who would take the benefit

of those public hearings, as well as use their own expertise in producing the feasibility study. He thinks there would be a great advantage to the City and County to conduct a series of hearings. You could begin the process right away without selecting a consultant in advance.

Commissioner Gonzalez stated that he would be interested in hearing what legal counsel would have to say about the manner in which the public hearings would be set up. If those public hearings are going to be incorporated in the essential records of what our expert has taken into account in terms of a sphere of influence, shouldn't those hearings begin once that expert has been hired?

Donald Maynor, Esquire stated that he has contacted some people who might participate in these hearings, and they would like a couple of months notice just for planning purposes. If the Commission wants to conduct meetings a couple of months from now, he assumes that would be adequate time to retain your consultant. By the time your hearings are ready to go, your consultant would be on board. You would want to get a thorough investigation from experts in public power as to what the advantages are. You would want to get PG&E and PUC to come in and explain what the alternatives are, to have an opportunity to look at special issues, and to hear from the public as well. At the end of that process, you would have a good record and then issues and questions would come up where you would want further information and studies done. That is when a consultant would be of great assistance to you.

Commissioner Gonzalez asked if the Commission could adequately conduct those hearings with the budget that we have for the LAFCo.

Donald Maynor, Esquire stated that the people he spoke to were not asking for fees. The main thing he heard is advance notice so they can plan their schedules.

Gloria L. Young stated that she concurred with legal counsel. She contacted several people in the Bay Area (such as APPA in Sacramento and other cities) who are willing to participate and have not asked for stipends or any other funds. She does believe the public hearing is crucial, and that the arena be set up so that we get a full record of the information that is transmitted from those experts that are invited to participate.

Commissioner Gonzalez asked Mr. Maynor to address the question as to whether the consultant should be hired prior to the public hearing.

Donald Maynor, Esquire stated that it would be advantageous but not essential to hire the consultant first. You have a lot of expertise in the City already. In addition to inviting speakers, the Commission could hand them a series of questions and encourage them to prepare written information as well as oral comments. Using the expertise of your in-house people, they could ask the appropriate questions.

Commissioner Gonzalez asked if Mr. Maynor has seen this kind of public hearing done with this kind of scoping.

Donald Maynor, Esquire stated this process was done at the PUC looking at the deregulation of the electric industry that occurred over a two year period. They brought in people from all over the world. The advantages were that you got a good sense of what the issues and risks were such as the risks that you would be facing in the future. It seems like every decade or so there are many critical issues that come about. Utilities, whether municipal or privately owned, have to make critical decisions. There are a lot of changes going on right now—changes in technology and changes in regulatory landscape. The Commission would want to have a good idea what the key issues are and find out what the PUC and PG&E have in mind. If you don't agree with them, you will be in a better position to make decisions.

Commissioner Gonzalez asked how many hours in public hearings would be estimated.

Don Maynor stated that he was anticipating four hearings, possibly one day each (six hours each).

Commissioner Gonzalez asked how the RFQ could be changed to take into account what legal counsel is suggesting as to how the Commission should proceed in terms of coordinating the public hearing with an independent study.

Donald Maynor, Esquire stated that he would not change the RFQ.

Commissioner Gonzalez recommended thinking of a timeframe and setting up a date to have a consultant in place. Is Mr. Maynor talking about four public hearings, probably over a scope of two or three weeks?

Mr. Maynor suggested a couple of weeks between hearing dates.

Commissioner Gonzalez stated that we are then looking at a two-month period of hearing dates. Possibly we can look at March, April and May if that is not too soon.

Commissioner McGoldrick stated that if we do not have to have a consultant in place, a consultant could avail himself or herself around the public record that would develop around these hearings. He would prefer not to tie the Commission to an acceptance of a consultant by the date when we want to start the public hearings.

Donald Maynor, Esquire asked who the Commission would want to moderate these hearings. Sometimes a consultant could perform that role, but it is not necessary. When the RFQ was originally discussed, it was with the idea that somebody gather information about these hearings, and not in terms of preparing feasibility studies. It may be useful to modify the RFQ to make sure they have experience in preparing feasibility studies.

Commissioner Gonzalez stated that he understands that counsel can participate as well.

Gloria L. Young suggests that the Commission conduct the hearings prior to going for the RFQ. She is concerned about the timing and with the RFQ you would be requesting some indication what that type of RFQ would cost from those submitting the proposals. We would also have to go back to the Board if the reserves are not adequate. There is \$364,000 in reserve that we have to keep in mind. You may want to think about whether or not it is more crucial to have the hearings and make sure we have the record available to the hired consultant.

Donald Maynor, Esquire stated that the other possibility is to have two phases. Have the consultant available to assist in the hearing phase (Phase One). After that have the consultant come back with a proposal to perform a feasibility study (Phase Two). At that time, you would be in a better position to decide what you really need in a feasibility study. If they come back with a successful offer for Phase Two, fine. If they don't, you have that public hearing record, and you could always go back and get another consultant to do the Phase Two work.

Commissioner Gonzalez stated that he would be interested in making a commitment to meet a sufficient number of times in the next month and a half and may want to consider more frequently to make sure these things move along.

Commissioner Ammiano stated that was more of a reason to appoint the fourth member and a public member.

Commissioner McGoldrick stated that the Commission also has an alternate position for appointment, but there is no person in it at this time.

Commissioner Gonzalez asked if the schedule for LAFCo meetings last year was monthly.

Commissioner Ammiano stated that the schedule was monthly, but there were sub-meetings that were also held. People dropped off and then joined.

Gloria L. Young stated that we could start setting meeting dates and could get preliminary dates from those experts that have been invited to participate.

Commissioner Gonzalez suggested meeting twice a month for at least the next two or three months.

Commissioner Ammiano asked if the Commission has a recourse if there is no quorum.

Commissioner McGoldrick asked if there would be no quorum if the Chair and the Vice Chair were not present, even if there were three out of five sitting Commissioners.

Nancy Miller, Esquire stated that the procedures could be changed to allow for a quorum if in the event the Chair and Vice Chair aren't there, and the Commission has a total of five Commissioners but only three are in attendance. The item would have to be put on the agenda. She stated that Mr. Maynor and her also discussed putting out an RFQ for qualified consultants that could be available during this hearing process at an hourly rate or whatever rate is negotiated, not necessarily under a contract to perform a study in order to not lose any time.

Commissioner McGoldrick stated that eventually the Commission would have an alternate so there would be a total of six that could meet together. Any three would comprise a quorum.

Public Comment

Richard Ow stated that he heard so much about consultants and the RFQ. He urges the Commission to give the consultants direction. We have lots of poor people, working class people working below the minimum wage, and also pensioners in San Francisco. Electricity is needed by everyone and is not a luxury.

Ross Mirkarimi stated that he appreciates the direction that LAFCo is heading, especially with the process of having comprehensive hearings, while considering the RFQ process for consultants to conduct the feasibility study. He wants to highlight an important fact that the feasibility study is a six- to nine month process. This corresponds with late-breaking news what PG&E is experiencing in San Francisco and the state of California and for tactical reasons, that we find greater emphasis to be placed on the completion of a feasibility study. With such eager desire by community leaders and citizens, we can bring this back to the voters in 2002 instead of 2003.

Public Comment Closed.

Commissioner McGoldrick asked if we are moving quickly enough to have everything in place for the voters in 2002.

Commissioner Ammiano stated that that is the Commission's intention.

10. Discussion and action regarding recommendations, options, and alternatives for the "Shadow MUD."

Commissioner Gonzalez stated that this issue was discussed at the last meeting and there was a question as to whether this item should be tabled or be placed on the agenda. He motioned to continue this item to the Call of the Chair, and in the event

that we want to discuss the item, it is available to us. He thinks that specific considerations about a MUD would likely come up in the process of the public hearings and or feasibility inquiries. Commissioner Ammiano seconded. No objection.

No Public Comment

11. Future Agenda Items

- Change/modification to procedures to allow three Commissioners to sit in session.

No Public Comment

12. Public Comment for Items not on the Agenda

No Public Comment

13. CLOSED SESSION (Continued from November 16, 2001).

(Item 2)

No Public Comment

Public Comment Closed

CONFERENCE WITH LEGAL COUNSEL

Motion that the San Francisco Local Agency Formation Commission convene in closed session under the provisions of Government Code Section 54956.9(a): Winchell Hayward v. San Francisco LAFCo; City and County of San Francisco Case No. 324661, for the purposes of conferring with or receiving advice from legal counsel.

Public Meeting adjourned at 2:10 p.m.

Closed Session convened at 2:12 p.m.

Closed Session adjourned at 2:19 p.m.

Commissioner Ammiano called to order the meeting of the San Francisco Local Agency Formation Commission at 2:21 p.m.

After a closed session, if one occurs, the Chairperson shall (1) request the Legal Counsel to identify the subjects discussed in the closed session, and (2) direct the Clerk to report the vote taken on any motion in the closed session.

[Elect to Disclose]

Motion that the SF LAFCo finds it is in the public interest to disclose information discussed in closed session, and directs the Chairperson immediately to disclose that information.

[Elect Not to Disclose]

Motion that the SF LAFCo finds that it is in the best interest of the public that the Board elect at this time not to disclose its closed session deliberations concerning the litigation listed above.

Nancy Miller, Esquire moved that the Commission elect not to disclose the matters discussed in closed session and stated that no action was taken. No objection.

14. Adjournment

The meeting of the SF LAFCo Commission adjourned at 2:23 p.m.

**San Francisco
Local Agency
Formation Commission**

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AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

**Special Meeting
Thursday, February 7, 2002 at 9:30 a.m.
City Hall, Room 263**

Members: Commissioners Ammiano, Gonzalez, and McGoldrick

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call
2. Approval of Minutes of the Commission Meeting of January 11, 2002. Action Item.
3. Interview and possible appointment of Public Member. The candidates are: Bernard Choden, Marc A. Levin, Joseph DeUlloa, Diane Fellman, Joel K. Rubinstein, and Hope Schmeltzer. Discussion and Action Item
4. Election of 2001-2002 Officers for the San Francisco Local Agency Formation Commission (SF LAFCo). (Continued from the January 11, 2002 Commission Meeting.) Discussion and Action Item.
5. Procedure to allow three Commissioners to sit in session. Discussion Item.
6. Future Agenda Items
7. Public Comment on Items not on the Agenda

6
8. Adjournment

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee Clerk of LAFCo, San Francisco Board of Supervisors, 1, Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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**San Francisco
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Special Meeting
Thursday, February 7, 2002, 9:30 a.m.
City Hall, Room 263

Interim Chair: Commissioner Ammiano
Members: Commissioners Ammiano, McGoldrick, Gonzalez and Hall
Alternate: Commissioner Peskin
Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Commissioner Ammiano at 9:35 a.m.

Commissioner Ammiano announced that Commissioner Hall had been appointed as a new member of the Local Agency Formation Commission.

Members Present: Commissioners Ammiano, McGoldrick, Gonzalez and Hall

Members Absent: None

2. Approval of Minutes of the Commission Meeting of January 11, 2002. Action Item.

Commissioner McGoldrick moved to approve the Minutes of January 11, 2002; Commissioner Ammiano seconded. No objection.

No Public Comment

Public Comment Closed

3. Interview and possible appointment of Public Member. The candidates are Bernard Choden, Marc A. Levin, Joseph DeUlloa, Diane Fellman, Joel K. Rubinstein, and Hope Schmeltzer. (Continued from the January 11, 2002 Commission Meeting). Discussion and Action Item.

Commissioner Ammiano stated that Mr. DeUlloa has sent a communication that he would not be available until after February 21st for consideration of his application, and that Mr. Bernard Choden has withdrawn his application.

Marc A. Levin, applicant, introduced himself as the Assistant Director of U.C. Berkeley Institute of Governmental Studies for organized research in the area of government politics and public policy and discussed his qualifications.

Diane Fellman, Attorney-at-Law, introduced herself and her law firm, the Energy Law Group LLP, specialists in regulatory energy policy in California and discussed her qualifications.

Commissioner Ammiano stated that Ms. Fellman mentioned in her application that she represents certain California energy interests, NRG Energy, etc. and if that would constitute a conflict of interest.

Nancy Miller, Esquire (legal counsel) stated that a member may have to refrain from any decision the Commission may take that might financially benefit the member or a client of the member.

Diane Fellman stated that she does represent NRG Energy Center, San Francisco, which is the steam provider to the City of San Francisco that bought the old PG&E steam system. They do have contracts with the City and County of San Francisco. She does not represent them in contract negotiations. Her practice focuses on issues before the public utility commissions and state regulatory agencies. Their parent company, NRG Energy Inc. is in partnership with Dynegy Inc, and they are owners of power plants in Southern California that were purchased from Southern California Edison and San Diego Gas and Electric. She has represented them only with general policy issues and monitoring before the California Public Utilities Commission, as well as their qualifying facility interest in California. She would have to recuse herself from any contract matters that dealt with Energy Center San Francisco or NRG Energy. In terms of general policy issues as to benefit to private generators, it would be broad enough that there would not be a direct conflict of interest under the Fair Political Practices Commission (FPPC) requirements. She stated that she was the conflict of interest attorney at the California Public Utilities Commission.

Joel Rubinstein, Attorney-at-Law and Psychotherapist introduced himself and discussed his qualifications. His primary experience is in real estate law and land-use and came into contact with LAFCo-related issues.

Commissioner Ammiano stated that Ms. Hope Schmeltzer, applicant, notified the Commission that she is interested, but could not be here today. He has spoken to her and he understands that she visited Commissioners McGoldrick, Gonzalez and the office of Commissioner Hall.

No Public Comment.

Public Comment closed.

Commissioner Gonzalez asked if the second alternate position that is vacant can be filled by a public member.

Gloria L. Young, Executive Officer stated that the required alternate member has to be either a legislative body member or city official.

Commissioner Ammiano stated that he was impressed with Ms. Schmeltzer.

Commissioner Hall stated that he was impressed with Ms. Fellman and is nominating her because of her experience with private and public generation. That was the question in the last go around with public power that was not examined. He stated that in the instance that she has to recuse herself, he feels the Commission would be capable of making a decision without her.

Commissioner McGoldrick stated that all applicants were highly qualified. He was also particularly impressed with both Ms. Fellman and Ms. Schmeltzer.

Nancy Miller, Esquire made a correction that an alternate public member may be appointed in addition to the appointment of a public member.

Nancy Miller, Esquire and Commissioner McGoldrick resolved that there could be a total of two alternate members, one public official alternate member and one public member alternate.

Commissioner Gonzalez stated that the Commission should ask legal counsel to look into the conflict of interest with Ms. Fellman, and that it would be beneficial for Commissioner Hall to speak with Ms. Schmeltzer. He feels now that it would be beneficial for Ms. Schmeltzer to make a presentation at a public meeting. The next item on the agenda, election of 2001-2002 officers for the SFLAFCO, may deal with Ms. Schmeltzer if she was selected, and she is not present to participate in the vote.

Commissioner Ammiano asked the Executive Officer when we could have the next meeting and the impact on feasibility studies.

Gloria L. Young, Executive Officer, stated that the next meeting was scheduled for February 22 as a workshop. There was to be no business of action on that day other than to hear from the panel of experts about public power.

Commissioner Ammiano asked if the Commission could schedule another meeting or put these issues on for the meeting of February 22nd.

Gloria L. Young, Executive Officer stated that the February 22nd meeting is from 9:30 until 3:30 p. m., and that the Commission would have to meet earlier than 9:30 a.m. or after 3:30 p.m. to discuss these items.

Commissioner Ammiano stated that his preference would be to have a public member seated at the February 22 meeting.

Commissioner Hall stated that he would like to have the public member seated at the February 22 workshop and to possibly schedule a meeting before the workshop.

Gloria L. Young, Executive Officer stated that we would contact the Commissioner's office to schedule a meeting before the February 22nd date.

Commissioner Ammiano stated that there would be two items of business for the next special meeting, the interview and possible appointment of a public member and the election of 2001-2002 officers.

Commissioner Gonzalez stated that the special meeting could be to appoint a public member and at the February 22nd meeting, the election of 2001-2002 officers could be the first item of business.

Gloria L. Young, Executive Officer, concurred that the election of 2001-2002 officers could be heard at 9:00 a.m. as the first item of business on February 22.

Commissioner Ammiano asked legal counsel for a definitive response on Ms. Fellman's conflict of interest issues at the next special meeting.

Nancy Miller, Esquire, stated that she would respond whether the public member could be seated at the next meeting if appointed.

Commissioner McGoldrick asked if the Commission could advise the two public members that they are most interested in to attend the February 22nd workshop. If they cannot be seated as a member on that date, they could sit in the public arena to be apprised of the information.

Commissioner Gonzalez stated that the other candidates are open for consideration and should be invited to attend.

No Public Comment.

Public Comment Closed.

The appointment of a public member continued to the next special meeting of the San Francisco Local Agency Formation Commission.

4. Election of 2001-2002 Officers for the San Francisco Local Agency Formation Commission (SF LAFCo). (Continued from the January 11, 2002 Commission Meeting.)

Commissioner Gonzalez asked if this item could be continued to the Call of the Chair.

Commissioner Ammiano asked if this item could be continued to the next meeting.

Election of 2001-2002 Officers for the SFLAFCo Commission has been continued to February 22, 2002. No objection.

No Public Comment

Public Comment Closed

5. Procedure to allow three Commissioners to sit in session. Discussion item.

Nancy Miller, Esquire, stated that this was an item that we thought we needed an action on, but is not necessary. The Commission may act in the absence of the Chair and Vice-Chair provided there is a quorum.

No Public Comment

Public Comment Closed

6. Future Agenda Items.

Gloria L. Young, Executive Officer stated that the Commission has agreed to a special meeting before February 22nd to agendize further interviews of the existing candidates. Donald Maynor, legal counsel, is not here today and is working on insuring that we will have the requested speakers there on February 22nd. The flyers have been posted and questions have been posed to the speakers that will be presented at the workshop. That will be the first of the public hearings. Another hearing will be scheduled in which PUC and PG&E will be invited for a presentation. The Board of Supervisors are also invited to attend and if there are additional Board members attending, we will have to notice that meeting as a Board of Supervisors meeting as well. The morning session will include David Freeman (former SMUD and Los Angeles Department of Water), Jan Schori (SMUD), Tom Habashi, Director, City of Roseville, and Mary Tucker City of San Jose, an environmentalist that will talk about conservation issues. In the afternoon, there will be Ed Smeloff (PUC), Steve Dworkin (Bear Stearns), John Roukema (Silicon Valley Power in Santa Clara) and Don Dane (Northern California Power Agency). Donald Maynor

has agreed to facilitate that meeting. One of the Commissioners will be asked to set the stage for the meeting that will be held in the Chamber. The Commissioners will be on one side of the inner circle and the presenters will be on the other side. They have been asked to submit their presentation material to us so that the IT staff can display the presentations. The second session will be scheduled for March. Several tapes will be made of the February 22nd meeting and will be available to the LAFCo.

In addition, the Commission has received in their packet the budget that has been reallocated. She did discuss this with the President's office and gave him a copy.

An orientation binder has been prepared for the public members with information including our procedures and processes and general information from CALAFCo. One binder is available and if the Commissioners are interested, one will be provided to them as well. Tomorrow is the deadline for the Request for Qualifications for the feasibility study. Budget hearings should be scheduled in May and June in order to comply with the Cortese-Knox-Hertzberg bill.

Commissioner Gonzalez stated that for future agendas, he would be interested in whether the Commission is restricted to only having legislators from the Board or if an alternate could be appointed from the school board or another agency. In addition, he requested a discussion about LAFCo's budget before the submission of the budget.

Commissioner Hall stated that he would be interested in discussing the use of the City Attorney's Office versus outside legal counsel.

7. Public Comment on Items not on the Agenda

A member of the public asked what constitutes a conflict of interest in deliberations of this body.

Commissioner Ammiano stated that counsel would respond at the next meeting of the SFLAFCo.

8. Adjournment

The meeting of the San Francisco Local Agency Formation Commission adjourned at 10:14 a.m.

San Francisco Local Agency Formation Commission

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AGENDA

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Special Meeting

Friday, February 22, 2002 at 9:00 a.m.

City Hall, Board of Supervisors Chambers, Room 250

Members: Commissioners Ammiano, Gonzalez, McGoldrick, and Hall
Alternate Member: Commissioner Peskin

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call
 2. Interview and possible appointment of Public Member. The candidates are: Marc A. Levin, Diane Fellman, Joel K. Rubinstein, Hope Schmeltzer, and Joseph DeUill (Continued from the February 7, 2002 meeting). Discussion and Action Item.
 3. Election of 2001-2002 Officers for the San Francisco Local Agency Formation Commission (SF LAFCo). (Continued from the February 7, 2002 Comission Meeting.) Discussion and Action Item.
 4. Future Agenda Items
 5. Public Comment on Items not on the Agenda
 6. Adjournment

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MINUTES

Special Meeting
Friday, February 22, 2002, 9:00 a.m.
City Hall, Board of Supervisors Chambers, Room 250

Acting Chair: Commissioner Ammiano
Members: Commissioners McGoldrick, Gonzalez and Hall
Alternate: Commissioner Peskin
Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Commissioner Ammiano, Acting Chair, at 9:10 a.m.

Members Present: Commissioners Ammiano, McGoldrick, Gonzalez and Hall

Members Absent: None

2. Interview and possible appointment of Public Member. The candidates are: Marc A. Levin, Diane Fellman, Joel K. Rubinstein, Hope Schmeltzer, and Joseph DeUlloa. (Continued from the February 7, 2002 meeting.) Discussion and Action Item.

Commissioner Ammiano announced that a note was received from Marc A. Levin stating that he had removed himself from consideration. He stated that Diane Fellman made a presentation at the meeting of February 7, 2002 and asked if she had anything to add.

Diane Fellman, candidate, stated that she would be happy to answer any questions.

Commissioner Ammiano stated that the Commission had received a memorandum from legal counsel establishing that there would be no conflict of interest if Diane Fellman were appointed as a public member to SF LAFCo.

Commissioner Ammiano asked Diane Fellman if she had ever worked for or represented Enron Corporation.

Diane Fellman stated she had never worked for or represented Enron in her career.

Joel Rubinstein, candidate, introduced himself at the February 7, 2002, meeting and asked if there were any questions.

Hope Schmeltzer, candidate stated that she is an attorney for the University of California and represents them in environmental and land use matters. Prior to working with the University of California, she worked in the Governor's Office as director of the Governor's Clean Energy Green Team and as a senior policy advisor on energy matters at the Governor's Office of Planning and Research. Her work was particularly on PG&E's proposed divestiture of their hydro-electric facilities. At the Green Team, she worked on permitting issues for power plants and alternative energy sources, particularly in coordinating issues between different levels of government. She lives in San Francisco and sees the potential for the City to do something in this area.

Commissioner McGoldrick asked Hope Schmeltzer if she would highlight the work she did at the Governor's Office as a senior policy advisor, particularly the issues of the divestiture of PG&E's hydro-electric cases, PG&E's general rate cases, the fiber-optic cable installation policies, and other matters.

Hope Schmeltzer stated that PG&E's proposed hydro-electric divestiture proposal was made to the legislature in a closed manner. The Governor's Office did not have a lot of information. She started working on trying to understand and explain the proposal and what it would mean for the state. She had worked with the Resources Agency and all of their different departments to start to figure out what the proposal would mean for state lands and for its impact on the environment. Through that process, the state submitted extensive filings on the CEQA procedure at the Public Utilities Commission. Over the course of the next year, the state participated extensively in scoping procedures under CEQA, commenting on a range of issues such as how it would affect state recreational facilities, endangered species, water quality, and other issues. The state ended up submitting several hundred pages of comments and then worked with the United States Forest Service and several other federal agencies who submitted extensive comments in that process. Before the fiber-optic industry started experiencing financial difficulties, there was a big race to try and lay as much cable as different companies could across the state. The Public Utilities Commission had been giving permission to companies to lay cable; however, the extent of that authority was being misinterpreted and in some cases there was cable being laid in places where there was no permission--occasionally on

state land. They were working with the different state agencies to insure that they were aware what was allowed and not allowed under the given permissions. Those agencies were concerned that a lot of cable was being laid along roadways and rights of way. CALTRANS and Park Lands had a lot of concerns so it was a multi agency coordination effort, as well as a CEQA issue.

Commissioner McGoldrick asked Hope Schmeltzer about her experience in financing programs and stated that her resume indicates that she worked with the Governor's Clean Energy Green Team and that she has experience with financing programs for renewable power sources.

Hope Schmeltzer stated that as the Director of the Governor's Clean Energy Green Team, they worked with companies that were looking to start new alternative energy sources helping them through local permitting procedures by making sure that they understood the procedures and that local governments understood what these types of energy sources were. In addition, they took a look at what is being done nationwide to fund or provide financing to alternative energy sources. They looked at programs in as many states as they could find and looked at local programs as well. They took a look at what was being done in California and made suggestions about what could be done. Some of those things were moved forward in the legislature, such as a new loan financing program through the economic development agencies and other proposals the governor made.

Joseph DeUlloa, candidate was not in attendance.

No Public Comment

Public Comment Closed

Commissioner Ammiano stated that the Commission would be appointing a public member as well as an alternate public member today.

Commissioner McGoldrick nominated Hope Schmeltzer as a regular public member and Diane Fellman as an alternate public member; Commissioner Ammiano seconded. No objection.

Gloria L. Young, Executive Officer swore in the two new appointees and stated they could sit in for the rest of the meeting if they chose to do so.

3. Election of 2001-2002 Officers for the San Francisco Local Agency Formation Commission (SF LAFCo). (Continued from the February 7, 2002 Commission Meeting.) Action Item.

Gloria L. Young, Executive Officer stated that the election would be of a Chair and Vice-Chair.

Commissioner Ammiano nominated Commissioner Gonzalez as Chair; Commissioner Hall seconded. No objection.

Commissioner Hall nominated Commissioner McGoldrick as Vice-Chair; Commissioner Ammiano seconded. No objection.

No Public Comment

Public Comment Closed

4. Future Agenda Items

Gloria L. Young, Executive Officer stated that the Commission received five responses to the Request for Qualifications for Energy Consultant. She suggested that she work with the legal counsel to set up a panel to interview the five consultants and to then make a recommendation to the Commission to interview two or three of the finalists. No vote was necessary to proceed.

No discussion was held.

No Public Comment

Public Comment Closed

Chair Gonzalez recommended that Gloria L. Young proceed with her recommendation.

5. Public Comment on Items not on the Agenda

No Public Comment

Public Comment Closed

6. Adjournment

The meeting of the San Francisco Local Agency Formation Commission adjourned at 9:29 a.m.

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San Francisco Local Agency Formation Commission

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MINUTES

Special Meeting
Friday, February 22, 2002, 9:30 a.m.
City Hall, Board of Supervisors Chambers, Room 250

Chair: Commissioner Gonzalez

Vice-Chair: Commissioner McGoldrick

Members: Commissioners Ammiano, Hall, and Schmeltzer

Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chair Gonzalez at 9:30 a.m.

Members Present: Chair Gonzalez, Vice-Chair McGoldrick, Commissioners Ammiano (noted present at 11:54 a.m.), Schmeltzer, Fellman, and Hall (noted present at 1:15 p.m.)

Members Absent: None

2. San Francisco Local Agency Formation Commission (SFLAFCo) Public Hearing on Public Power.

Chair Gonzalez stated that the San Francisco Local Agency Formation Commission is sponsoring the first of several public information hearings that will investigate the options of providing electricity service to the City and County of San Francisco. The first information hearing will focus on several public power options, and that we look forward to hearing from a number of prominent public power managers in the morning session. There will also be an afternoon session beginning at 1:00 p.m.

with additional speakers. In a few weeks, the San Francisco Local Agency Formation Commission will sponsor another public information hearing which will focus on options of continuing to receive electric service from PG&E and we hope to have appropriate speakers from both Pacific Gas and Electric Company and the Public Utilities Commission to share with us information regarding this option. A date for that hearing will be scheduled in the near future, and there may be additional informational hearings as the need arises to gather more information on any particular subject.

The LAFCo was established in August of 2000 as a result of an initiative petition to create a Municipal Utility District or MUD for the City and County of San Francisco and the City of Brisbane. California law necessitated that the City and County of San Francisco form a LAFCo to review the proposed formation of a district. In addition, the Cortese-Knox-Hertzberg Act authorized the LAFCo to perform studies and to obtain and furnish information that would contribute to the logical and reasonable development of local agencies for specific purposes. Most of you are aware that there was a recent election in San Francisco for the creation of a MUD. The result of the election revealed that there is public support in San Francisco for the consideration of public power.

Following the November election, the San Francisco LAFCo discussed whether there was a continuing need for this LAFCo Commission. After some discussion, the Commission unanimously concluded that there was indeed a public need and strong public support for the thoughtful investigation of public power options for San Francisco. LAFCo therefore decided to continue its work. The Commission felt it was the best vehicle for embarking upon a deliberate and open process of gathering information. By LAFCo establishing a broad information base on this complicated subject, San Francisco would be in a position to make a knowledgeable decision on whether to pursue the matter of public power either as a Municipal Utility District, a Municipal Utility, or in some other form or hybrid. These public discussions may very well lead to another ballot proposition in the future. The purpose of these workshops is to provide an opportunity to gather as much information as is reasonably possible to assist the members of the public and the Commission in our future thinking about how we move forward. The City and County of San Francisco and LAFCo will hopefully be able to assess the information we receive, explore the various options we have, and hopefully make the best decision for San Francisco.

Gloria L. Young, Executive Officer introduced each of the panelists and Donald Maynor, SF LAFCo's legal counsel who facilitated the session and has extensive experience in the area of municipal utilities.

Donald Maynor, Esquire presented an overview of the public power hearing and discussed informal rules for conducting the hearing. Members of the public with questions were invited to fill out a questionnaire form that would be presented to the panelists during public comment at the end of the afternoon session.

Morning Panel 9:30 – 12:00 p.m.

Laura Doll, Chief Executive Officer, State of California Consumer Power and Conservation Financing Authority discussed the purpose and functions of the State of California Consumer Power and Conservation Financing Authority. The "Clean Growth: Clean Energy for California's Economic Future, Energy Resource Investment Plan" was distributed and is available at the Clerk of the Board's Office and on their web site at capowerauthority.ca.gov. This plan helps establish what the role of the Power Authority might be and outlines a vision of a "clean energy future" for California.

Linda Davis, Sacramento Municipal Utility District Board of Directors discussed her background and commitment to public power. A discussion was held about positive aspects of a publicly-owned power system versus an investor-owned utility in Sacramento.

Tom Habashi, Director of the City of Roseville Electric introduced Roseville Electric who has been in the electric utility business since 1911 and discussed the differences between a publicly-owned and investor-owned utility, trends in and vision for California, reasons to municipalize, and what's next for San Francisco. A PowerPoint presentation was made, a copy of which is available at the Clerk of the Board's Office.

Mary Tucker, Supervising Environmental Services Specialist, City of San Jose is responsible for coordinating a large number of the energy activities in San Jose and described their role in energy-related activities. PG&E supplies the bulk of San Jose's energy needs as they are not a Municipal Utility District. They have kept informed of the feasibility of establishing a Municipal Utility District or other entity, but at this time are not undertaking any formal feasibility studies or have direction to start in that path.

Chair Gonzalez, Vice-Chair McGoldrick, Commissioners Schmeltzer and Fellman engaged in a question and answer session with each of the panelists.

The Chair and Executive Officer thanked the speakers for participating.

The morning session adjourned at 12:05 p.m.

Afternoon Panel – 1:00 – 3:00 P.M.

The afternoon panel convened at 1:15 p.m.

Members Present: Chair Gonzalez; Vice-Chair McGoldrick (was noted present at 1:49 p.m.); Commissioners Ammiano, Hall, and Fellman

Member Absent: Commissioner Schmeltzer

Gloria L. Young, Executive Officer introduced the afternoon panel and described their background in energy-related issues.

Ed Smeloff, Assistant General Manager for Power Policy, Planning and Resource Development, San Francisco Public Utilities Commission discussed the advantages, future opportunities, and importance of increasing San Francisco's local control of the electric system.

Don Dame, Assistant General Manager of Power Management for the Northern California Power Agency (NCPA) discussed the formation and functions of the Northern California Power Agency headquartered in Roseville, CA. A PowerPoint presentation was made, a copy of which is available at the Clerk of the Board's Office.

Ed Adjayan, former Public Utilities General Manager, City of Anaheim and currently a strategic consultant on energy issues to several governmental agencies and businesses discussed the issues surrounding public power and spoke of deregulation, different options, risks, problems, differences between investor-owned and municipal power systems, building and financing of power plants, and community involvement.

The Commissioners engaged in a question and answer session with each of the panelists.

3. Public Comment

The panelists answered questionnaires presented to them by public speakers and a public comment session was held.

4. Adjournment

Gloria L. Young, Executive Officer thanked the panelists for participating.

The meeting of the San Francisco Local Agency Formation Commission adjourned at 3:31 p.m.

San Francisco Local Agency Formation Commission

City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102-4689
Tel. 415.554.7702
Fax. 415.554.5163

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MINUTES

Special Meeting
Friday, February 22, 2002, 9:30 a.m.
City Hall, Room 263

Chairperson: Commissioner Gonzalez

Vice Chairperson: Commissioner McGoldrick

Members: Commissioners Ammiano, Hall and Schmeltzer

Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chair Gonzalez at 9:30 a.m.

Members Present: Chairperson Gonzalez, Vice-Chairperson McGoldrick, Commissioners Ammiano (noted present at 11:54 a.m.), Schmeltzer, Fellman, and Hall (noted present at 1:15 p.m.)

Members Absent: None

2. San Francisco Local Agency Formation Commission (SFLAFCo) Public Hearing on Public Power.

Chairperson Gonzalez stated that the San Francisco Local Agency Formation Commission is sponsoring the first of several public information hearings that will investigate the options of providing electricity service to the City and County of San Francisco. The first information hearing will focus on various public power options, and that we look forward to hearing from a number of prominent public power managers in the morning session. There will also be an afternoon session

beginning at 1:00 p.m. with additional speakers. In a few weeks, the San Francisco Local Agency Formation Commission will sponsor another public information hearing which will focus on options of continuing to receive electric service from PG&E, and we hope to have appropriate speakers from both Pacific Gas and Electric Company and the Public Utilities Commission to share with us information regarding this option. A date for that hearing will be scheduled in the near future, and there may be additional information hearings as the need arises to gather more information on any particular subject.

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Gloria L. Young, Executive Officer stated this is the first informational hearing to focus on public power options. I will take a few minutes to introduce each of the panelists. All have extensive bios, so I will briefly introduce them.

First, we are delighted to welcome Ms. Laura Doll. Ms. Doll is the first Chief Executive Officer (CEO) of the California Consumer Power and Conservation Financing Authority, a state agency established in response to the California 2001 energy crisis. Ms. Doll has had over twenty years of experience in formulating and administering corporate level strategic energy initiatives. She served as the Chief

Administrative Officer of Austin, Texas, a municipally owned electric utility for over fourteen years. Ms. Doll has graciously stepped in to replace Mr. David Freeman who unfortunately could not be present.

Ms. Linda Davis is a member of the Board of Directors for the Sacramento Municipal Utility District. She was elected in 1992 and reelected in 1996 and 2000. She was the President of the Board of Directors in 1999 and also served as Vice-President for two years. She is currently the Chair of the Finance Committee.

Ms. Mary Tucker is a Supervising Environmental Services Specialist for the city of San Jose and has played a major role in planning and managing energy and environmental programs on local, state, and national levels for more than twenty years. She has been with the city since 1989. Ms. Tucker is the immediate past president of the American Solar Energy Society.

Mr. Tom Habashi is a director of Roseville Electric. Mr. Habashi has spent over the last twenty-one years working for community-owned utilities. His public service includes the cities of Burbank and Palo Alto.

Please join me in welcoming our panelists. I would now like to introduce Donald Maynor, Esquire our legal counsel for SF LAFCo, who will facilitate this session. Mr. Maynor has extensive experience in the area of municipal utilities.

Donald Maynor, Esquire stated, I would like to introduce my co-counsel, Nancy Miller, Esquire. If it pleases the Commission, I would like to suggest some informal rules for conducting a hearing this morning. I would suggest that the speakers keep their comments within the 15-20 minute range so that we would have an opportunity for the Commissioners, panelists, and members of the staff to ask questions. We also will provide an opportunity for the members of the public to ask questions. There's a form that we put together in the kiosk, and if the public has any questions or comments, they could fill out the form and give it to Ms. Fish, the Clerk. If we have time at the end of all of the presentations, we will ask the questions of the panelists based on the written questionnaire. We do encourage you to ask questions and submit your comments. At the end of the afternoon session, there will be an opportunity for public comment as well.

Morning Panel 9:30 – 12:00 p.m.

Laura Doll, Chief Executive Officer, State of California Consumer Power and Conservation Financing Authority stated I do want to extend David Freeman's apologies. This is an issue that's absolutely near and dear to his heart, so he is very interested in what will happen here. I am sure he would be happy to come and talk to you at some point in the future. It's an important issue that you are embarking on this morning, and I think you are doing exactly the right thing by starting to talk to people. I have as I come to you today a relatively narrow professional perspective right now on behalf of

the California Power Authority, but I do have a lot of experience in the municipal utility side of things so would be happy to talk about that. Let me talk a little bit about this new kid on the energy block in Sacramento, the California Power Authority. Our official name is the California Consumer Power and Conservation Financing Authority. Each of those words are fairly important, but a key emphasis is on financing. This agency is about six months old and as mentioned was born out of last year's energy crisis. The legislature had in mind that the state of California should have some control over energy reserves to avoid both blackouts and also to provide price stability in the market.

As our first assignment, we were directed by the legislature to produce an Energy Resource Investment Plan. I've left a copy of this plan, which was just delivered last Friday to the legislature and to the governor at each of your places, and there are a few extra copies. The plan is also available on our web site, which is capowerauthority.ca.gov. The point of this plan is to help establish more clearly what the role of the Power Authority might be.

We were given authorization to issue up to five-billion dollars in revenue bonds to help with reserves, conservation, renewables, and so forth. That doesn't mean that we have that money in hand right now, but we do have the opportunity to go to the market and get it for appropriate projects. What we've tried to outline in this plan is a vision of what we're calling a clean energy future for California.

I think what is most significant to the work that you are undertaking is that should you elect to get into the electricity supply business, the Power Authority is a ready, willing, and able partner to help provide the resources that would enable you to do that. Those resources, in our view, can all be through clean energy options. We are in the clean energy and clean energy financing business. That distinguishes us from the other state agencies. We are not in the regulatory business, so we are not the PUC just across the street. We are not in the planning and siting business, so we are not the California Energy Commission. Our focus is really rather much more narrow than that. It is to fill some gaps in the marketplace working in concert with the private sector as well as the other state agencies to provide some measure of reliability and security in the state. We are non-profit. We are meant to be self-supporting. We are not there yet, only six months old. Anything we do will be priced on that basis, which is to say non-profit and cost-based pricing.

In the Plan, a couple of the things that we tried to outline more specifically include local examples as follows. There is, as you are well aware, a transmission reliability problem in San Francisco. We believe working with the California Independent System Operator (ISO) as well as the Energy Commission and the PUC, that this is a very serious need to be addressed as quickly as possible. One of the things that we have outlined and considering

is financing a small peaker project in the area of the San Francisco Airport. Another specific local reliability program that we are considering would focus on businesses in the San Jose to San Francisco corridor and provide financing for special efficiency improvements and renewable energy projects in this area. Basically, we can help provide capacity. If you elect not to get into the electric utility business at a retail level, a key component of our Plan is something we're calling, greening public buildings.

We are very excited about the opportunity to help levels of state and local government, and we have recently had an inquiry from the federal government as well. In other words, to reach out to public facilities throughout California and help provide financing for energy efficiency improvements and again for renewable energy projects like photovoltaics. Now, San Francisco, of course, has clearly demonstrated an interest in renewables. We think that working with Sacramento Municipal Utility District, which has a very active program, Los Angeles Department of Water and Power, San Francisco, and the Power Authority, that we are going to have significant buying power to help influence the photovoltaic market in California and to move photovoltaics farther along than anyplace else in the country.

We think we've laid out in our plan something that you already believe and demonstrated that you believe is that clean energy works, that it is not only technically feasible, it can be cost effective as well. In our plan, we compare a clean energy future to a business as usual future, one in which for example 8,000 megawatts of capacity between now and 2006 is met by natural gas versus one that is met by clean energy conservation renewables and efficiency improvements.

One of the things that you may want to take a look at is the estimates of positive economic development impacts. Clean energy provides decent paying jobs and more jobs than conventional generation. These aren't our numbers. These are our numbers that several respected institutions have worked on. I would think that is something that you would want to consider as you go forward.

Something else you'll want to consider that again ties in with what San Francisco has already seen is the whole issue of public preference. While I don't have copies of this for you, I wanted to make sure that you are aware of a new energy poll that came out this week that was conducted by the Hewlett Foundation. The results of it were publicized by the Energy Foundation. Their web site is ef.org downloads. This is the first California-specific energy related survey since last summer. A couple of things I will just highlight for you that was done throughout California. A very significant point is that nearly two-thirds of Californians think the energy crisis is far from over. Sixty-two percent said that they think that blackouts and shortages could still occur and that energy rates would continue to spike up and be unstable. Another thing !

think is of particular interest is that nearly three quarters of Californians, 73 percent believe that energy conservation, efficiency, and new technology programs will help the economy. More than eight out of ten support doubling the state's renewable energy supplies by 2010. Again, no surprise here in San Francisco. The public preference issue is an important one. I think I would just close with my California Power Authority hat.

If I could put on my veteran of the Municipal Utility industry hat for a moment. As you think through this, you will hear from a lot of experts today. Going forward, there will be a tendency to focus on important issues like financing, and engineering issues, and what happens if we take over this sort of thing. I would just encourage you to try to visualize what it would mean for San Francisco to be in this business. It's a tuff business. Part of the visualization process needs to include as follows. What does it look like when there are difficult transmission facility siting decisions that have to be made? What happens when rates have to go up or when there are controversies about inter-class rate allocations, and you have multiple economists before you? Not to mention, really basic customer service issues. When do you cut off customers and how are you going to handle those public need issues? That's the tuff side. At the same time, there is a very rewarding side. That is the opportunity to shape the energy future of a community and to shape energy policy according to local values and preferences.

San Franciscans have spoken to local preference issues loud and clear. When I was with the city of Austin, we had a management turning point. You are going to hear from one of those people this afternoon, Ed Aghjayan, who came to Austin from Palo Alto and really took the town by storm. The year was 1983. Austin was in the midst of a major crisis because we were at that time participating in a nuclear power plant. Even though we had only a 16 percent share, we were sending to that nuclear power plant a million dollars a week. In 1983, that was a lot of money. We embarked on a conservation program at the urging of Mr. Aghjayan that was the equivalent of a power plant. It was over 550 megawatts at the time. That push, which reflected community values in Austin is still underway. It provided the underpinnings for everything that Austin is still doing today. It was a dramatic and radical shift. It mobilized the community.

I would just end by saying as you are listening to experts and technical experts, you may want to stay in touch with the question, whatever decision you make, is it ecological? How does it fit into the system of this community, the culture, the resources that you have available?

Chairperson Gonzalez stated you made reference to polls and public preferences. To play the devil's advocate, what do you say to somebody who says, listen to the extent that you are going to rely on public opinion polls to pursue a public power agenda--in San Francisco, we actually took a measure

to the ballot and it was defeated. My impression of what took place there is that while there was a lot of interest in the public power question, there appeared to be a lot of concern about whether or not the issue had been studied sufficiently. How relevant really are the polls? If the polls had been the other way that you were describing and there was a sense out there that a municipality can't run energy, should we not move forward because of that?

The work as I understand at the California Power Authority would appear to be in direct response to the deregulation crisis that we had. It seems that to the extent that you are working on an energy resource investment plan or control over reserves, that that's something that would benefit a municipality that was not engaged in a municipal utility concept, as well as one that perhaps was. What do you say to the argument that says, what is the need to start messing around with municipalized energy when the state is taking steps to try to make sure the crisis we just went through doesn't happen again?

Ms. Doll stated let me start with the second question first. The issue of reserves is obviously critical to our core mission. The municipal utilities represented on this side of the table are going to talk to you about the fact that they were in quite good shape during the crisis so they weren't hit in the same way that the rest of the state was in some cases. There may not be a specific role for the Power Authority in providing reserves to municipal utilities. However, the opportunity for the Power Authority because it has this bond financing capability, if we partner with other public institutions, those bonds can be tax-exempt. If those bonds are used for renewable resources, it can make a significant difference in lowering the cost of those resources to the consumers. A possible vision for the Power Authority is as a broker and developer of renewable resources throughout the state that could be available to public entities, cities, or municipally-owned utilities. Our vision is really to try to lower the cost of renewables in California.

To go to your first question about polls. I'm not a polling expert. This poll that was just done this week didn't specifically ask the question about public power as such. I don't know what polls on that issue would look like in San Francisco.

Chairperson Gonzalez stated my comments related to that are largely irrelevant. I think your comments related to that are irrelevant too. The reason I want them to be irrelevant is because if I take a different approach, then shouldn't what the voters did at the polls dictate what it is that we do? Rather than a public poll, we should just go look at the ballot result.

Ms. Doll stated ultimately, you're right. It's what happens at the polls and then it is the issue to the extent of which you've been able to get the story out there and lay out the pros and cons of this issue. That is part of what you are doing here.

Chairperson Gonzalez stated I appreciate what the California Power Authority is doing. It sounds like there are going to be great opportunities for renewable energy, but they don't seem to be tied to the question of whether a City has municipal power or not. I would be interested in hearing whether we as a City would have an advantage if we had some kind of municipalized electricity in terms of our ability to partner with the California Power Authority. I would be curious in hearing If the City of San Francisco goes into the area of public power, what should our local power authority look like? How do we need to change the Public Utilities Commission that we already have? What power does this local power authority need to have as it relates to bond financing, etc.?

Ms. Doll stated the advantage in partnering with the Power Authority is the ability of the Power Authority to provide resources from around the state that would be of interest coupled with tax exempt financing to lower the cost. It would be a public partnership.

Chairperson Gonzalez asked if we have a local power authority, how do we need to change our current PUC to accommodate or to best partner with the California Power Authority?

Ms. Doll stated I don't know enough about your current PUC, but I would venture to say that the issue of governance will be a critical one, and that the issues are both complex and time consuming enough that governance would need to be done as pretty much a full-time job for whatever Board you put in place.

Commissioner Fellman asked Ms. Doll if the California Power Authority had started coordinating with the City on the peaker project at the Airport and projects in the San Francisco to San Jose corridor.

Ms. Doll stated we have, and I think Mr. Smeloff will be here this afternoon and his office has been involved in those. The San Jose to San Francisco projects are not very well developed at this point, but certainly on the Airport project.

Commissioner Fellman asked does that extend also to the public building greening project?

Ms. Doll stated yes, there are several local government groups that have been meeting on these issues, and the city of San Francisco has been involved as well.

Vice-Chairperson McGoldrick asked how big is that peaker plant at the Airport?

Ms. Doll stated about 50 megawatts.

Vice-Chairperson McGoldrick asked what do you think was the heart of our recent energy crisis, and how might that crisis have been averted had we been a municipalized power system in San Francisco?

Ms. Doll stated the experience of most of the municipal utilities in California was that they had control over their power supply, and they had procured their own reserves. In California, with the investor owned utilities, that historic relationship had been split apart so the power supply was no longer controlled by the retail electric provider, the investor-owned utilities. There were a number of other factors including low hydro and high gas prices and some transmission constraints. From a municipal prospective, the Muni's did better because they never split the pieces apart. They kept them as a vertically integrated system.

Vice-Chairperson McGoldrick asked do you want to explain the splitting apart issue because there is a public that listens to this?

Ms. Doll stated the splitting apart was pulling generation out from the business and selling off most of those assets, putting transmission in a separate business and leaving distribution, which is what most customers experience in a third silo.

Donald Maynor, Esquire asked could you give specific examples of how the city of San Francisco could benefit from the Power Authority without being a municipal utility?

Ms. Doll stated generally, two things--the greening of public buildings. To the extent that we can in a more global sense provide low cost financing and have a pool of money that is set up to allow any level of government to participate. A key to this would be keeping the bureaucratic red tape down. I know we still have some battles ahead. Everything you can do to make your own facilities as efficient as possible is a clear benefit. The other side would be working jointly on solar or bulk procurement of other energy efficient technologies, fuel cells, and perhaps combined heat and power systems.

Mr. Maynor asked, so that would be for municipal use as an end user?

Ms. Doll stated, yes.

Vice-Chairperson McGoldrick stated that he had one other question as it relates to labor concerns that arose last year that in fact may have contributed significantly to some of the difficulties that we had at the ballot box on this issue. Some of the unions were concerned that there might be demeanition

of their conditions of work and benefits and so on. Have you had experience in that area?

Ms. Doll stated it is an interesting question and something that as we put our investment plan together, we had not only a lot of public input and had meetings around the state, but we had specific stakeholder meetings with many of the unions involved. There are two issues. Certainly, they have a concern about private development of resources that might be outside organized labor. We speak to that in our plan by saying that anything that the Power Authority develops will adhere to the State Labor Guidelines. The more significant issue is what kinds of jobs really can be associated with clean energy, efficiency, and renewables. What sort of training can organized labor be involved with to help open up job opportunities and facilitate more jobs, not fewer jobs. Jobs that aren't just with the original construction of a plant, but jobs which continue forward. Those are issues still to be worked out. We think there is a real potential for a win-win from the labor standpoint. So far, our plan has been received well by organized labor.

Commissioner Schmeltzer stated you talked about the questions we might have to think about here as far as how a public utility would be structured in the City. Could you talk a little bit about how it was structured in Austin?

Ms. Doll stated in Austin, the ultimate decision making was with the City Council. But, the City Council set up a Citizen's Advisory Group, a nine-member Electric Utility Commission that met regularly and provided recommendations to the Counsel for the kinds of investment decisions, rate decisions, and bond decisions that remained in the Council's purview.

Chairperson Gonzalez asked how many Council members are there? Is the Mayor elected at large? Could the Mayor veto what the Council did as it related to those issues?

Ms. Doll stated, seven Council members. The Mayor is elected at large and the Mayor could not veto. That was a majority vote of the Council.

Chairperson Gonzalez asked, did the Citizen's Advisory Commission, let's say on a bond question, would make a recommendation to the City Council, and by majority vote the City Council could issue what kind of bonds?

Ms. Doll stated actually, there were some dollar limitations, but in general in Austin, the Council insisted on votes of the general population to approve revenue bonds. For the electric utility, it was always revenue bond finance or Certificates of Obligation.

Chairperson Gonzalez asked by majority vote?

Ms. Doll stated of the citizens, yes.

Vice-Chairperson McGoldrick asked if you were sitting over here, what crucial information would you need and what steps would you need to take to be able to make an informed decision on this matter?

Ms. Doll stated I think you are definitely headed down the right path from what I hear about your process. Maybe the question of looking inward among the Board of Supervisors, how you think decisions could be made going forward. I don't know that there are any specific facts that you ought to have that you aren't already on a path to have. I would just emphasize this notion of you have a full plate already. So what does that look like if you add on a Municipal Utility, and how best do you structure it so that decisions can be made by people who have enough time to focus on it?

Vice-Chairperson McGoldrick stated I think that is a governance issue.

Ms. Doll stated, yes.

Commissioner Schmeltzer asked, you mentioned the decision that Austin made to get out of nuclear power?

Ms. Doll stated and they still haven't been able to get out of it. There never was a buyer out there.

Commissioner Schmeltzer asked, how did they end up getting in?

Ms. Doll stated it was both national and state energy policy that prohibited more natural gas burning generation. It was the late 70's so the world looked very different then. Austin partnered with the city of San Antonio and with what was called Houston Light and Power at the time (now it's called Reliant) and with Central and Southwest which also has another name. There were four partners, two privately owned and two municipally-owned utilities that got into the project.

Commissioner Schmeltzer asked but Austin's public utility was already a public utility then?

Ms. Doll stated Austin became a public utility in 1895 long before nuclear power.

Mr. Maynor thanked Ms. Doll for attending the public hearing. He stated as a point of order, if the public has any questions to ask, place them on the podium and we'll pick them up. I did get a series of tuff questions from a member of the audience. Perhaps we could send you an e-mail and get

some answers to these questions if we don't have time to answer them this morning.

As most of you know, SMUD stands for Sacramento Municipal Utility District and we are pleased to have with us this morning Linda Davis, who is a District Board Member.

Linda Davis, Sacramento Municipal Utility District Board of Directors
stated I appreciate the opportunity to speak to you today about public power. I have a list of public power pros and cons to talk about. But first, I wanted to tell you about myself and how I selected public power. I was a student and I had to make the big decision. I graduated from a university here in California and had to decide whether to go to work for PG&E or for my locally-owned utility. Just going through the job interview process led me to a commitment to public power. In my career as an engineer, I worked temporarily at SMUD as a student and returned a few years later to become President of the Board. When I speak to you, I'm not speaking to you as a member of the public who inadvertently became a Board member because of love of politics or my desire to become President. I'm here because I am committed to public power. The commitment goes far beyond commitment to an organization. The commitment to public power is a commitment to people. As I worked through the years in the industry, you realize there are two groups of people, the public power people and then those who work for investors. They really are a different group of people. Let me go onto the advantages of a public power system, having your very own Municipal Utility District, your ownership pride.

The first thing is in Sacramento and generally throughout the state, you have lower rates for municipal power companies. In Sacramento our rates are more than thirty percent lower than PG&E's. We have had a lot of failures at SMUD. As you know, we had a nuclear power plant, a great investment, more investment than everything else in Sacramento. It was closed by the voters. It's an exceptional expense. But, that was what the people wanted to do with their money. They wanted to pay to close their nuclear power plant and so they did. Even with that terrible mistake behind us, our rates are still thirty percent lower, and the reason is the commitment of our people and the pride of ownership, plus we have local control.

I heard Commissioner Matt Gonzalez ask the question--now that there is a California Power Authority, isn't the state going to make sure there will be no power crisis? I will tell you, no. The state is not going to insure that the lights aren't going to go out here in this City in a very devastating heat wave. But, nobody here is going to be accountable for that. When the trolley is not running and people were stuck in elevators, no one here in this room is going to be responsible for that because you're not a public power agency and you're not in control. If this is how your citizens voted then you still have no

local control, that's just your problem because you have no one to come down and complain to. The people who you pay your bills to, the people who you've trusted are out of town. Decisions made by electing representatives--the meetings are held in public. You can come and speak to your publicly elected representatives and complain to them. When you complain to your elected representatives, they can go themselves and get a key and look wherever you said there was a problem. Right now that can't happen. You can't ask somebody at PG&E to check their facility. They are not going to tell you what's in there. Last week, I wanted to take a tour of the nuclear power plant to make sure with my own eyes that we were being protected from terrorists. If that plant belonged to PG&E, we have to be trusting somebody who is not our neighbor. I trust myself and my neighbors trust me. They voted to elect me and I go and I check on that plant. I wasn't satisfied, but I never will be. AB 1890 which brought us the deregulation recognized the independence of public power and gave us more latitude in decision making. Because we own our own Municipal Utility District, we can own our own power plants.

I mentioned to you that as a student I worked for SMUD. I also spent a great number of years as a transmission engineer over at the Energy Commission. I have worked on most of the major power lines in the state. I also worked on siting a number of facilities. One of the projects I worked on gave me a great deal of insight into the public process, and that was your very own Hunter's Point. That plant was never built and that was because of your public influence here. You have even greater control over what happens in your community and where your power facilities are sited. There is no doubt that these are obnoxious facilities, but we require them. Somebody is going to be somewhat harmed by the facilities. A Municipal Utility gives you the chance to go in further detail and speak in farther detail than an investor-owned utility will do.

I remember the rumors that investor-owned utilities actually paid people to come over and speak to the powers that be during that period. Municipal Utility Districts will never do that. They are not going to work against the public because your representative is the public. Furthermore, as I mentioned to you when we close 1000 megawatts of nuclear power plant down, because we were the municipal utility, we were not going to do the easy thing and go out and find a piece of property, move people off, such that happens with the Calpine projects in San Jose or other places. We looked at the overall public benefit to replacing the power. We didn't go the easy way. We found places that needed to be cleaned up where there was an additional public benefit to the cleanup, and where there was an additional public benefit to making jobs in that specific locality. I'm not saying that the public welcomed us with open arms when we cleaned up the emissions from Campbell Soup and became partners with the Campbell Soup Company in our community to help them stay in our community. When we supported local

business through our public power efforts to provide energy for our citizens, all of a sudden everything changes and the dollars that you are spending on your energy bill stay in your community and help to clean up all the messes that have happened in the past.

You can pursue your community values. It is true renewables are nice. Now you might be surprised to learn that in Sacramento because we were a municipal utility, we put out a lot of public surveys and we found that people were overwhelmingly in support of renewable energy. Even though it sometimes cost twenty percent or more.

The SMUD Directors decided though despite public power polls, often when it comes down to putting your money somewhere, the people really don't want to pay. So instead of instilling a renewable energy program mixed in with our other bill, we said we will invite people to join the renewable energy program and they may pay a little more. You would be surprised how many people don't put their money where their mouth is. We thought we would have 20,000 people, and a huge percentage of our customers want to pay for our renewable power. A lot of people don't want to pay.

As a municipal, you can still make the appropriate decisions and let people have even more input into the process by this. You are not all grouped in with a huge group of ratepayers through this enormous state that you have, and trying to communicate to an investor-owned utility in the interest of making money what your values are. The disadvantage is you have to take the time to listen to the people. It is true the public process is slow and time consuming. However, once the decisions are made, the people buy on to it even more. Then they take civic pride in the action that was taken.

The most important issues for the next twenty years is going to be bridging from fossil fuels to renewable energy. Giving the people a choice now helps bolster the renewable energy field and make them more user friendly, bringing down the price. They make these products real for us. However, the public is never going to pay more for these products. So, your municipality once again has got to be there. I want to tell you the most important function of the municipal utility is to bridge this transition.

Now, you remember in school, many of you I know are administrators, college-educated. So are the managers and the decision-makers at PG&E. Now, how many of you really studied routinely every day and made a few steps towards getting your degree every day? How many of you waited until the last minute, and you were cramming to get all of that information in? Maybe you went out and spent some extra money on those study guides. Let me tell you it's human behavior to wait until the last minute and scurry around. But when you are talking about your electricity at the last minute, people are going to be hurt because when that power goes out, people are hurt. Your

economy will be shot. You will be unable to serve your people through the transit system, through your health care. Everything is going to depend on the price of electricity. The most sure thing that is going to happen to us is that we will lose to the transition if we wait for profiteers to do our planning for us. No, the state is not going to save you from an energy crisis. PG&E and some out-of-state investors are not going to save you from an energy crisis. The only thing that is going to save the city of San Francisco is for you to take charge, own your own resources, and serve your people. After September 11, a lot of nights I couldn't sleep. It's a big responsibility keeping the lights on for one million people, but we take that responsibility and we know who we are.

The money the customers save through lower rates, SMUD's rates, are thirty percent lower. They're not just good for the local community. They are a major injection. We use our local university to study the value of dollars spent, both the dollars saved and the dollars that we spend in our community, because we have hired local contractors and employ a lot of people in the community. In general, it's a 1.1 money multiplier. That means for every dollar that the people pay in rates in Sacramento, they get \$1.10. I want to make you think. What other services can you invest in that is going to pay you back ten percent like that? There is nothing.

Furthermore, if you look at the value of our energy efficiency programs, we spent money. We spent \$130 million dollars on our community, and the people were happy about it. Their rugs were fixed. They had their windows fixed. We came to their homes and talked to them. We checked their ducts for them. We gave them new thermostat controls. For this amount of money, we figured this all translated into 185 million and increased local economic activity. Where will the city of San Francisco get an additional 60 million dollars of injection into your economy? It's a stretch for you to find something.

So how do your rates compare to the IOU's in your area? At SMUD, we kept our rates low and didn't have a rate increase for ten years, but we sat back and watched and PG&E raised and raised their rates. Public power was about 12 to 14 cents cheaper than the IOU's. Maybe this is one reason why deregulation came about. When you look at the national averages, public power brings the average way down, but you can keep being victimized if you like. We don't have to pay a dividend to our shareholders either. We pay the dividends back to the public. In public power when revenues exceed our expenditures, we either put them back into the electric system or we find ways to reduce the cost. At SMUD, we put that money in the bank and we save it for a power crisis. We didn't have to have a big bump of rates at SMUD because through the many years, we saved for this inevitability. We know that something bad is going to happen. We would think it would be a flood. We didn't think it would be a market situation created by free market forces. But now, we are going to save money in the bank for that too. PG&E

is not saving their money in the bank for the city of San Francisco, no more than they are locating services for you here which you can trust. If you don't want to be unplugged, you have to stand up for yourself now and instill your own values and instill your own resources here in your own town.

It's geographically impractical what is happening here. There is nowhere in the whole world except maybe Hawaii that's stuck out here electrically like you are electrically. But, PG&E has never cared about this because they get more money to transport the power to you over these long power lines. Then you can play the victim and say that's complex, we don't know how it works, we might get electrocuted, we might not do this ourselves. I want to tell you what. Their IBW workers were very pleased to come to work for the city of San Francisco and tell you exactly what you have and exactly what's going on here. Especially, after they have lost a lot of their retirement money, and they know they will be on public retirement systems. They will no longer be playing a cat and mouse game working for PG&E and supposedly serving the public. They will be serving the public and they will be earning a trustworthy retirement.

We're the advantage to owning your own generation. You can control the costs. You don't have to be totally dependent on this roller coaster market. Your system will be more reliable and you can make choices. But the important thing is when you flip that light switch, you won't suspect there may be some really mean people at the other end who don't identify with you or your lifestyles and who can very easily deny you the very means to your survival and put you into a power crisis, exorbitant cost, or maybe deny you power altogether. Your opponents will always raise the issue of costs. But, don't let that stop you. You are paying the price now for not being able to make your own decisions. In fact, you are ignorant. You are absolutely ignorant of your power system. You owe it to yourselves to get out there and own it so you'll know what's going on. I can't imagine being responsible for this number of people and not knowing my power system. The most expensive and vulnerable thing that you can do is to decide to not act as soon as practical to gain control of your power system.

Vice-Chairperson McGoldrick asked, in 2001, we had these so called market distortions, public language for very high market rates—did you have to raise your rates to accommodate increases in your supply during the campaign against public power here last year by anti-public power forces? There was campaign literature that went out that claimed that SMUD had to have record high percentage increases. I wonder if you caught wind of any of that, and whether or not you can explain why they thought that SMUD was a perfect example of public power that was somehow not fulfilling its public power mandate and then distributed this literature widely during the campaign?

Ms. Davis stated it is absolutely true. We did have to have a rate increase, and some people were a little more hurt than others. Maybe some people got up to a twenty-percent or higher rate. We're far lower. What happened was due to the change in the market rate, we have always saved money for a drought at SMUD. We did save \$100,000,000 dollars in the bank. We did over-recover. If we had saved \$200,000,000, maybe we would have given everybody back some money. But here along came the "robber bears" and stole our money. As far as I am concerned, it was stolen. After that, we had put an item on our bill, now more of an energy charge. We're using that because we are afraid of a drought, and we lost our drought money. So we are trying to rebuild our stabilization fund and get our drought money back and additional money for the market force risk. Overall, no we did quite well, and we would never be hurt as bad as an investor-owned utility.

Vice-Chairperson McGoldrick asked did you have to raise your rates a higher percentage than others because your rates were already lower, and to what extent were you dependent upon for transmission-generated sources over which you didn't have control? How much control do you have over your generated sources and your transmission?

Ms. Davis stated we have an immense amount of control over our transmission and generation. Like your Hetch-Hetchy, we own a hydro system that we are very proud of. We did leave ourselves open because although we owned a lot, we didn't lock in a lot of resources. The fashion is of course if you form your own Municipal Utility District, you may own part of your system and you may lease some; however, your mix works out for you. The market prices is what knocked us into the rate increase situation. Otherwise, we shouldn't have trusted the market. We will never do that again.

Now what my recommendation is and what we are working towards--we pulled out the hydro surcharge. Now in the future I am trying to talk my other directors into leaving that surcharge on there because it is obvious now we are going to have huge fluctuations in the spot market where you buy power so we have got to keep a bigger reserve. But also, we don't want the public to think that we are doing a bad job. So, in the event you form a municipal utility district, the public will be able to see it. You can break it out in your bill where here's our job, and here's what is left of market forces so the public won't be confused. They will be able to keep your scorecard straight. They will still be able to tell whether you are jacking up rates because you are doing a bad job as a municipal utility, or if it is just market forces.

Vice-Chairperson McGoldrick asked what percentage of your generated energy do you actually produce and control and what amount do you have to buy from the market?

Ms. Davis stated we generate around two-thirds and then say a third was left. But, this year I think we are only leaving a sixth open to market forces. We really didn't appreciate shopping for electricity when the prices were spiking wildly, and so we're already trying to do a little bit more long term shopping at a reasonable rate. But, we'll never be that vulnerable again.

Commissioner Fellman asked with respect to the conservation investment or the energy efficient investment, and I think SMUD has a solar program?

Ms. Davis stated yes, we have the leading solar-program.

Commissioner Fellman asked is that investment made exclusively by SMUD or does the city of San Francisco participate at all or any of the other local governments that are within your utility district?

Ms. Davis stated the financing comes 100% through SMUD.

Commissioner Fellman asked that's based on the rates that you collect from all of your customers? You said you had special renewable customers. Does that include your solar customers as well?

Ms. Davis stated we put our solar customers on special rates as well.

Commissioner Fellman asked and what about your energy efficiency customers?

Ms. Davis stated our energy efficiency customers are on a special rate. If they are investing in our products, they stay down in the cheapest pier.

Commissioner Fellman asked do the customers pay for the products?

Ms. Davis stated yes. When you have a municipal utility, you are able to loan people money to fix up their houses. For instance, if they have a bill right now for \$150, the municipal utility may come over and visit their house and say, if you spent a few thousand dollars and fixed up your house, your bill would be reduced by \$70, so you can loan the money, send them a bill, and they can fix up their homes. All of the money they saved on their bill they can pay their other bill to you for a few years, and then when they pay that off, they still have the energy savings. PG&E obviously now has some of these programs, but they are far more effective when they come from the local utility district.

Chairperson Gonzalez stated a lot of the remarks you are making relate to the Municipal Utility District as opposed to the consideration that we had locally of a power authority. Rather than having a more independent MUD, there's been many here in San Francisco who are talking about a power authority that would really be our own PUC where we make some kind of City charter

change to how a member of the local PUC is selected, perhaps elected or appointed and maybe change some of the authority that the PUC has. To what extent do you think the benefits your community has had are directly related to it being a Municipal Utility District as opposed to some other form of municipalized power?

Ms. Davis stated I feel our community has greatly benefited by being a separate Municipal Utility District versus an electric department such as Los Angeles or Roseville. The major thing is that your coffers are totally separate. It would be really a bad fall to me as the Electric Director to put that \$100,000,000 in the bank and to see it tapped for some other civic purpose. Things are much more separate when you have your MUD. Honestly, I personally believe for a city this size you should have a separate MUD because it really is going to require a lot of attention. It shouldn't be a subset of all of the responsibilities you already have in your City or your County.

Chairperson Gonzalez asked you are making an assumption that a PUC locally formed elected by the people would not be able to give the same degree of attention that your Board is able to?

Ms. Davis stated we are separately elected by the people.

Chairperson Gonzalez asked what is there about that distinction between a MUD and a Power Authority? Is it your belief that a MUD is elected and a Power Authority is or isn't? Is it that the Power Authority has a closer relationship to City government? Is it that the City Council might be able to make the ultimate decision rather than the PUC?

Ms. Davis stated yes, I think the last thing you said was the greatest difference. It is really better to keep it separated. When you go through the process of repairing the system or siting new facilities, having a separate Municipal Utility governance body, that is where the responsibility belongs. So when you then make the decision and then give another track at the City Council level, it is really too divided. But, it works fine for some cities.

Chairperson Gonzalez stated it seems you are placing great weight on this whole idea of direct participation, direct democracy component of the public being able to elect people dealing with these issues. How negative is it if the public gets to elect folks working on this issue and their elected representatives, their legislature likewise participates in that decision making? Why wouldn't that be seen as a positive as opposed to something that should be seen as a negative?

Ms. Davis stated I don't see it as a positive or a negative. I believe that I did actually make the statement that the public process can be slow and time consuming. Decisions really have to be made in the power area. You have

to make a decision and move on; otherwise, things aren't going to work for you. That would be the only concern. I don't favor a certain type of governance. I mostly favor getting the job done.

Chairperson Gonzalez stated let me ask you a different type of question. If we took the question of the difference in rates out of consideration that public ownership has a lower rate, and let's say we concluded that the rates were equal to one other. Would the primary argument that's left be greater public participation through public hearings? Would you still be as strong an advocate for public power?

Ms. Davis stated if I were coming here today to tell you that SMUD had higher rates, I would still tell you that the pride of ownership and the reflection of community values and the local control far outweigh any dollar amount. I fully believe that people should want to pay more to know that they can drive down the street, and they know that their local government are the people they are dealing with for their energy services rather than investors. I have always felt that commitment. I don't want to give away that trust. In fact, I would much prefer to live in a public power town where I could as an electrical engineer go and talk to my public power agent, get the documents from them, and see how they're planning because I have somewhere to complain to. If they're doing a bad job, I can bring that up to an effective force.

Chairperson Gonzalez stated I am trying to ask questions from a devil's advocate point of view. I appreciate you made the remarks early on about the terrible mistake behind us, this idea of the whole nuclear power thing. I assume you supported the will of the voters in eliminating the nuclear plant.

Ms. Davis stated yes, I have been working on the decommissioning.

Chairperson Gonzalez stated the reason I asked that is after you told us about the vote you said that the terrible mistake behind us related to having the power plant, not to the vote to eliminate it. What do you say to somebody that says take a look at Austin. The public speaks, the public for some reason continues to maintain a nuclear power plant. If the vote in your community had been different and the community had continued to support a power plant, what do you say about that? Obviously, that is opposed to your own ethics around public power or energy practices. Would you still be as enthusiastic about a Municipal Utility District if that were a decision?

Ms. Davis stated yes, I would because that reflected the values of the community. If the community had reflected the values to keep the nuclear power plant operating, I would certainly have worked in the best interests of the community to keep the reliability of that unit high and the maintenance costs as reasonable as practical. That would be the public's choice and that

would be what they had spoken to me and therefore, they had made that decision.

Chairperson Gonzales asked would it be better if in the creation of a Municipal Utility District that we consider if there are certain public policy or a constitutional bill of rights, certain matters that we wouldn't want a Power Authority or a Municipal Utility District to be able to consider? Do you have an opinion about that? What if as a legislative body, at the time we presented to the voters, if we did so, a consideration of a Power Authority or a Municipal Utility District that we tried to include in that that there could not be certain considerations such as nuclear power or the expansion of reliance of natural gas, etc.?

Ms. Davis stated that is quite a statement because I definitely believe there is a huge element out there probably far more in Sacramento than you have here who go for cheap power, and they don't care how messy it is or who it's hurting. It would be a problem but as a Director I would have to implement the direction that the public voted. Obviously, if people wanted a nuclear power plant, wanted more pollution, they probably wouldn't have voted for me. If I were going against the public, I would be out of office and somebody new would be there. You don't have that opportunity with investor-owned utilities. If the public wants desires that are not matching the investor-owned utility—too bad, the investor-owned utility will proceed down its own path. The only way that you could feel effective as a citizen is through the public power system.

Chairperson Gonzalez asked what do you say to somebody that says the private corporation then becomes subject to regulatory rules, a whole set of rules related to the siting of new plants, etc.? Deregulation is not an example of the industry going bad as much as lawmakers failing to do their part in regulating the industry.

Ms. Davis stated I have wonderful news for you. If you form your own Municipal Utility District, you will be able to evade a lot of that regulation because you are not under PUC regulation. Furthermore, as a municipal utility, SMUD right now is pursuing its very own control area. We don't even want to be part of the ISO game. We believe it's our right as our own district under the MUD Act to not play a lot of these games. You will definitely find yourself in a whole different position. It takes a lot of work, but you can be far more successful in local control versus remote regulation. You could be much more effective.

Chairperson Gonzalez stated obviously in public ownership, the public is much closer to the decision making. In the regulatory scheme, they have to rely on legislators who often don't have information or sufficient knowledge of

the areas they are legislating in to protect them from these market catastrophes.

Ms. Davis stated it is such a long route for the investor-owned customers. They have got to elect a governor. The governor appoints the commissioners or they have got to elect their legislators. The legislators have got a Senate and Energy Committee. All of these people. You have to travel to Sacramento and stand in a long line. No, if you have your Municipal Utility District, you are the neighbor of the people you are serving. They will be knocking on your door, I guarantee it.

Mr. Maynor asked Ms. Davis if it would be possible for her to get some materials that would describe SMUD's various programs on economic development, renewable resources, and conservation?

Ms. Davis stated yes, we would be happy to give you any information you would like, and our staff would be happy to come and provide you with more information. Please invite our Economic Development Director to directly meet with each of you individually so I can be sure that you are fully informed.

Mr. Maynor introduced Mr. Tom Habashi, Utility General Manager with the City of Roseville.

Tom Habashi, Director of the City of Roseville Electric stated it is a pleasure for me to be here today. Just for the media, we do have slides. This is an introduction about the city of Roseville. You usually travel by us on your way to Lake Tahoe, about fifteen miles east of Sacramento. The city owned its own electric utility since 1911. We are a department of the City. The city of Roseville is the largest in Placer County and for those of you who do not know where Placer County is, it's split somewhere between the east of Sacramento all the way to Lake Tahoe Lake. The city has been growing at about six to seven percent for the past ten years. There are about 89,000 people in the City and 41,000 electric customers, 35,000 are residential customers and the rest are commercial and industrial. The largest two customers that we have are Hewlett Packard and NEC.

I know that you have got quite a few questions and you have listed them all. They are very good questions so I am going to try to address them one at a time. I will start with the question of what are the differences between Roseville and PG&E? I will actually start about talking about the differences between a community-owned utility and an investor-owned utility in general. Then I will start to specifically talk about the differences between Roseville and PG&E.

To begin with is the governance issue. On the surface, it looks like we have the same type of forum. However, in reality we are very different. The people

that put our City Councils into their seats are the people who vote, the residents of Roseville, and generally the people that support the elections or the businesses of Roseville. The City Council governs us. They tell us what to do. They also look over our shoulders so they regulate us as well. Those are the same people that I do serve, the residents and the businesses of the city of Roseville. All I need to do is make them happy and I pretty much have my job done.

On the other hand, PG&E has the Board of Directors who has to look out over the interest of the shareholders. They have got FERC who is somewhere in Washington D.C. Every now and then they probably do something that is good for us. They have got the CPUC here in California who are busy doing the business of regulating the utility business up and down the state along with a number of other businesses. Sometimes they are appointed and sometimes they have Republican or Democratic tendencies depending on who is the governor at the time. Then of course, the California Energy Commission (CEC) that regulates and sites power plants. All of these different entities that regulate and tell PG&E what to do aren't really for the most part the residents and the businesses of San Francisco. I don't envy PG&E employees at all because they are pulled in so many different directions trying to make everybody happy. In the process, what they end up doing is making a lot of people miserable.

In terms of financing, investor-owned utilities have to issue taxable bonds, and they have to pay taxes on the assets they buy. They are also a for-profit organization. These are things that you are aware of. In our case, we issue tax-exempt bonds. We are not for profit, but we do make a transfer to the General Fund in the amount of four percent.

The next I believe is a very important difference which is who has the obligation to serve? In our case, we do have the obligation. We never let go of that. It stayed with us throughout the energy crisis and before and will stay with us after. We did offer our customers the right to choose their own supplier if they wish to do so. After two years of that experiment, we didn't have a single customer signing with anybody else, so we closed shop and said there's no sense of maintaining that program. In the case of PG&E quite frankly, I have no idea who has the obligation to serve the residents and businesses in San Francisco anymore.. PG&E made it clear quite often that they have the obligation and the right to deliver power, but not to generate that power or to go out and buy it. They will do so as the default provider if they must, but they will do that with complete indifference as far as the monetary obligation or the risks that comes with building and acquiring supplies.

That takes us into the next slide. What kind of supply portfolio do we have versus what PG&E has? We generally have a portfolio of generating

resources and short and long-term contracts that help us minimize and stabilize the cost of power. Right now, one third of our power is met with generating facilities that we have part ownership in, and two-thirds are met through contracts. PG&E used to do something similar to what we are doing in the past, but since deregulation, they have sold all of their power facilities except for the hydro and the nuclear. You are well aware that they are trying to transfer those facilities over to their other non-regulated subsidiary, and they are having a tuff time doing so. Their portfolio has a bunch of contracts that DWR entered into under duress and pressure blackouts.

Next slide please. Profits and transfers we discussed before. We have a four percent in-lieu franchise fee. We also take care of the operation and the maintenance of the traffic lights in the City and the streetlights in the city of Roseville. We also make direct transfers to the City to pay them for the services they provide for us, human resources, finance, and others. PG&E pays the taxes, the profits to the shareholders. In some cities, they have franchise fees. In some other cities, they have utility users tax. Going more specifically to the differences between the city of Roseville and PG&E, how do we deal with conservation? We put five percent of our revenue aside to help build renewable portfolio and to also spend on efficiency measures in town. That number went up quite a bit last year. But next year it will probably be brought down to normal. We also administer our own programs. We are the ones to spend the total amount of money that we budget for that program. In PG&E's case, they are obligated to fund the public benefit program to the tune of about three percent of their revenue. To their credit, they have been doing a lot in that area for the past ten years or so. They are quite conscientious about their effort towards conservation. Nowadays, I believe CEC is the one that administers the programs for the most part.

Getting a little bit more specific to the question of differences. If I am a PG&E employee, I am going to get down to the last slide and say, so what are the differences between us? Really, the real difference comes down to what we believe we do for a living, which is do we provide reliable energy and do we provide it at a reasonable cost at a competitive price? This is pretty much what we breathe day in and day out. Are we more reliable? Are we more efficient? That gets us to how we measure reliability. There are three ways to measure reliability that are well known in the industry. The three indices that we use. One is the duration of outages. How long does an outage last per customer per year? The second would be frequency of outages. The third would be frequency of momentary outages. Those are the outages that you don't feel, but are the cause of all the clocks in your household appliances to blink and drive you crazy in the process.

If you look at the first, this is how we compare with PG&E. We've been doing very well in the last four years. The last year as far as duration of outages, we were somewhere around twenty percent that of PG&E. Next is the

frequency of outages. Still doing very well. It's gone up a little last year. It is something we have taken notice of, and we have put a lot of money in the budget for next year to deal with a lot of aging equipment that we have to bring that number down quite a bit. Third, is the momentary outage and again, you could see the picture for yourself. Last, in terms of comparison rates, as you can see we're on the average. By the way, the number to the vertical axis is cents per kilowatt hour on the average. We looked at it for home, office, restaurant or industrial customers, and as you can see we're somewhere around fifty percent. Maybe 55 percent of that is PG&E.

Now to deal with some of your other questions. One of the questions was, what do you think the trends that will take place in the industry in California in the next few years will be? I will just address three areas—trends in the supply area, trends in the transmission, and trends in the distribution area. These are the type of things you need to do in order to eventually bring power to your homes and businesses.

In terms of supply and availability, we're going to go through the boom and bust. When there are shortages, there will be lots of power plants coming online. When prices get to be too cheap, some of those power plants will be kind of shoved aside or delayed until better times. That's exactly what happened in the last couple of years by the way. Supply prices, I believe are going to be stable over the next few years. I know some of you may wonder why if you have boom and bust and availability, why the supply is going to be stable. Because the DWR entered into contracts that take it to seven, eight, and nine years into the future. Those who entered into those contracts on the other end need to make sure that those supplies will be there. They will make sure that either they build it or they contract for it. Somehow, they are going to bring the supplies in. Since DWR already paid premium for that power, most likely market price will be reasonable and stable over the next few years.

Transmission is going to be an issue almost guaranteed. Those who would like power like folks in the Bay Area, don't have a lot of land to build generation in. Even if they do, it's probably about a 5,000 square foot lot that you could build a house on, and that's about the extent that you have available. You don't have a lot of land to build power generation. The places where they have land, they don't have customers. Some how you have to figure out a way to get the power from where you build it to where people will consume it and that requires transmission. Transmission is unsightly things that occupy quite a bit of land and cause quite a lot of headaches to a lot of people and take a long time to build. I think transmission is going to be our next headache. I know right now that all we can think of is the generation side. But, in the future, I think transmission is what we need to concentrate on.

Distribution—just an improvement in technology that will help us go from 12KV primary to 25KV primary, so it's more of a way to reduce losses in the system. That would be the trend as I see it. If I'm starting a utility from scratch, how would it look like? I guarantee you that whatever we have on this slide is not going to be what will end up happening in California because we have already plenty of interests that are in place, and you can't get there from here without a lot of pain. If I am starting this whole thing from scratch, I would privatize the supply industry and have it be market-driven. However, in order to make sure that we don't face the situation that we faced last year, you need to have reserves, and those reserves I believe ought to be owned by the state or by an entity like the California Power Authority.

In terms of transmission, I would completely separate ownership of the transmission from operation of the transmission and planning for that. That has to happen otherwise the conflict of interest would be happening continuously for the utility you are trying to operate, own, maintain and run the system at the same time. I would have the transmission ownership be completely separated from the planning and operation. Transmission owner will only build and collect money for the investments that they are making absolutely without regard to what they are required to build. They are told what to build, and they are told by a regional transmission organization that looks at the entire region and makes sure they put the transmission at the right place at the right time.

Finally, if I would have it my way I would have every community own its own distribution system. Going on to the next question. The next question was would you consider municipalization? I think in any action that you take and any decision that you make has to be governed by three things. One, time. Is it the right time to do it? Place. Are we in the right place to do this? Do you have the appropriate set of circumstances in order to make that decision? That is pretty much what needs to govern any decision in my mind.

Looking at what's going on in San Francisco. Four years ago you were told that four years from now specifically by April 1st of 2002 you will have a system that is twenty percent cheaper than what you had before, and you will be able to buy power from whoever you want to buy power from. Here we are now you are paying forty percent more than you what you paid four years ago. You don't have any rights to go buy from anybody you want because of the DWR contracts. You have an organization that is providing you with electric utility that is bankrupt and torn by a lot of other circumstances that are happening around them. I do not know what would be a better time, a better place, and a better set of circumstances for you to at least if not jump right away into at least and investigate it seriously. My advice is yes, continue with what you are doing. This is definitely the right place and time and circumstances for it.

The question that Vice-Chairperson McGoldrick brought up earlier was well, if you were in my place, what information would I need in order to make this decision? The steps to investigate municipalization are well known. I have got them and would be glad to provide them to Gloria and Don. That's nothing new. They have milestones where you have to come in and make certain decisions whether you want to go this way or that way and so on. Really, the decision that you need to make is whether you want to take on this fight. It is a fight and it will be. If you think it is going to be an easy one, think again. It took SMUD twenty years to go through the process before they managed to municipalize. That is how long of a fight they had to put up with PG&E in order to have self-control.

This is not something that you take on to advance your careers quite frankly. It will not be an easy ride. You will be fought every step of the way and you will be fought by an organization that knows how to fight these things very well. If you think that they fought it along in small communities all over California, all over Northern California, think of what they will do if the City and County of San Francisco will make an attempt to municipalize. You are the bread and butter without a doubt. This is the cash cow PG&E and they are not going to let go of it easily. My advice is get ready for the fight of your life and do not hesitate for a second to hit below the belt.

Mr. Maynor stated Mary Tucker is with the city of San Jose and specializes in conservation activities.

Mary Tucker, Supervising Environmental Services Specialist, City of San Jose stated I appreciate the opportunity to participate in this hearing and also to learn from what you are doing. Within the city of San Jose, I am responsible for coordinating a large number of the energy activities within the city within the Environmental Services Department. Our primary partner in this action is our General Services Department, who is responsible for instituting a large number of the energy efficiency and energy supply opportunities within the city. We also have a very active and enthusiastic inter-department energy team which brings together all of the departments, Library, Fire, Police, Recreation, the Parks to learn and to talk about what they are facing and what is going on.

We are not a Municipal Electric Utility. PG&E supplies the bulk of our energy needs, so I do bring a different perspective than the other members of the panel here. We have kept informed regarding the feasibility and the potential for establishing a Municipal Utility or other sort of entity, but at this time we are not undertaking any formal feasibility studies nor do we have any direction from our citizens or elected officials to start down that path. We do look with interest on your undertaking and those of other entities within the Bay Area such as East Bay Municipal Utility District as you explore these opportunities.

When the energy crisis hit California, San Jose was well prepared and able to respond on the end use side. We have had an active and progressive energy program for more than twenty years and also very strong energy policies that have guided our activities, and more recently, in the beginnings of last year, counsel adopted a Smart Energy Plan. The foundations for our policies are the city's Sustainable City Policy. This is an expression of our desire to be an environmentally and economically viable city insuring that the actions that we take today in all areas would not jeopardize the resources or the ability of future generations to determine their own future. With sustainability as our foundation, we have three key goals as regarding energy to insure that we as a city use energy as efficiently as possible. In all aspects of our city government, our buildings, our vehicles, our transportation, and our land use planning to explore options for expanding our own supply with renewable energy sources and to develop strong partnerships within our community and our region.

On energy efficiency, we have had tremendous success lately with our own facilities reducing our energy expenditures since April of 2001 by more than two million dollars just through a strong partnership with our city departments and employees in identifying primarily low-cost and behavioral ways to save money and beginning to identify the most cost-effective areas for increased efficiency opportunities in our buildings and operations.

We have also adopted the U.S. Green Building Council's lead or leadership and energy and environmental design rating system. For all of our new facilities starting in July of this year, all new city facilities and retrofits over 10,000 square feet shall meet a lead certified rating, which is the base level rating within that organization. The U.S. Green Building Council is a national organization of more than 1,000 members representing architects, builders, developers, manufacturers, state and local governments, and a wide range of folks. This will help to insure that all of our future city facilities will be as green and as energy efficient as possible.

We have also worked within the Bay Area here, other local governments, and the state government on these issues and have formed a virtual network of sorts, the California Green Building Collaborative, where we are able to come together and share what's going on within each of our jurisdictions and how we are moving toward insuring that all of our own city facilities are as green as possible. In particular, working with the California Integrated Waste Management Board, who has taken on that leadership role for green building for the state facilities. I am also very honored that just recently, in January, I was elected to the Board of Directors for the U.S. Green Building Council representing state and local governments so we will be able to bring that voice to this organization as we work locally, state, and nationally on a lot of these issues.

Within the city, we have a proven track record of using co-generation systems, especially at our wastewater treatment plant and our convention center. We are currently actively exploring and analyzing the solar electric or the photovoltaic opportunities on numerous city facilities. Many of our existing city facilities and also making sure that we design it into the future city facilities incorporating even the potential for some of the newer solar technologies such as solar glass building integrated photovoltaics.

We are looking at our parking structures. We believe they offer a very unique opportunity for solar and looking at some of our lands and areas. One of the major concerns that we have as we started down this path is the ability to provide resources that would involve our Public Works Department and staff in this entire process. As I said, we are not an electric utility and any of the energy work that we do is primarily funded through general funds or through grants. We do not have a revenue source for these activities so we need to involve our Public Works Department in this activity. Because of the need to develop the bid documents, it's been determined that solar installations are major public works process and therefore subject to our City Charter and Code Rules regarding bids and processes.

We believe we have identified a source of funds over two million dollars that we have now saved as a result of energy expenditures and to be able to initiate these activities and start down that path. We will also be working with the Department of Energy, the National Renewable Energy Lab through the Million Solar Roofs Partnership that we are part of to be able to obtain technical assistance from the National Renewable Energy Lab in helping us to design this. We too have the potential within financing these projects ourselves through tax-exempt bonds and other resources that would be available through the California Power Authority.

On a related issue to green power, it's great to be able to have it on our own facilities. We were a little dismayed and concerned about our loss of direct access in being able to purchase green power. We had started down that path. We were going to release a request for proposals for green power when the energy crisis hit, and it was determined that direct access was no longer available. We are continuing to work with the League of California Cities to look at, is there a possibility to change that or to insure that there is the level of green power available for cities to purchase.

We have strong working relationships within our region to insure that our land use and neighborhoods are protected, and that energy generation facilities are built in the most appropriate places and meet all the regulations required of them and hopefully, in some cases go beyond that in order to protect the neighborhoods. We have worked diligently within our community to provide our businesses and residents with the information and the resources they need to make sound decisions regarding energy needs, energy education,

energy fairs, such as you held in this very building. We held ours at our Sports Arena and a variety of workshops that had just been overwhelming through our green building program. Our solar workshops to provide information to the citizens are standing room only. We partnered with PG&E on a Cool Roofs Program similar to the statewide Cool Roofs Program, where we offered the rebates for the commercial sector to be able to install energy star cool roof technologies on their facilities and reducing their energy use especially during those summer months of peak demand. We are hopeful with the CPUC's current program where they have opened up the public goods money, we too have applied to be able to provide a small business program of energy efficiency, audits, and also rebates to be able to run that program ourselves within the city of San Jose.

We have also set up a special program that use city funds to assist the low-income community within the San Jose area going beyond some of the state and federal programs that were available. We are providing utility bill assistance along with weatherization installations. One of the unique aspects of this weatherization program is the ability that we have given and written into the contract with our non-profit organization that is providing this service for us to install non-traditional energy efficiency techniques that are not currently included in some of the state and federal guidelines such as awnings, especially on the west side of many of the citizen's homes and buildings. You would be amazed what a west-spacing awning would do during the summer as far as reducing the cooling needs that you would have within that. We are also excited about a pilot project that we will be doing with this organization to explore the installation of solar domestic hot water systems on many of the group homes for senior citizens within San Jose.

In the next few months, we will explore other energy policies and potential programs that we can undertake. We are initiating a community-wide stakeholder process to update our energy policies and look at a different energy action plan of sorts where we have a little bit of breathing room right now after the energy crisis, but really to solicit ideas and explore other opportunities within the city. We have actively engaged in discussions and networking with our counterparts in the Bay Area, here within the city of San Francisco, your Department of Environment and other groups within Oakland and other Bay Area communities where we shared ideas, strategies, resources, lessons learned, and looking at the potential for partnerships particularly in that area that you talked about bulk purchases. There are opportunities particularly right within the Bay Area that we could do that among our various city entities.

Energy will continue to be a key issue for San Jose. We will work locally, statewide, and nationally to insure that the goals for our city and citizens can be met and look forward to working with you and learning from you as you start down the path and research your public power options.

Ms. Tucker stated she just participated in an Advisory Panel for Alcatraz Island, which is in itself an entity onto its own, but they are looking for water. There is a new technology that captures fog, the water from the fog.

Ms. Fellman asked Ms. Tucker a question, but there were microphone problems.

Ms. Tucker stated I think the issue of local control would be the strongest benefit that we would look at with the city of San Jose and to start down that. We do understand that it is a long fight, and I need to read the report that came out for East Bay MUD. We do have a Municipal Water Utility. I know we will probably be looking to explore expanding that, but at this point it's just some initial research in looking at that that will probably come up in this energy policy process and looking at the options and if we get the direction from our counsel to go down that path and learn from what you have been learning.

Chairperson Gonzalez stated, I wanted to ask Mr. Habashi a question. I was out of the Chamber when you finished your remarks. Can you tell me how large the City Council is in Roseville and whether the Mayor is elected at large?

Mr. Habashi stated it is a five-Council member. John Lee, the Mayor, is the person that received the highest vote in the election before. The Mayor serves for two years. After the two years, the person who received the highest vote in the previous election becomes the Mayor.

Chairperson Gonzalez asked if Roseville was a Municipal Utility District?

Mr. Habashi stated it is not a separate district from the city. It is a department of the city.

Chairperson Gonzalez stated the questions I was asking before related to the question of whether or not the benefits or disadvantages that perhaps your City has considered in terms of having a closer relationship.

Mr. Habashi stated I would assume a part of it had to do with the community expecting certain returns by investing in its own utility. I think that is a very reasonable expectation on behalf of the city and the people who live in the community to get some return. That relationship has to be very well established and perhaps put in place in the Charter so you don't have misconceptions later on as to what the utility needs to provide in terms of return to the city. Right now, our return to the city is four percent of our total cost every year, and that percent is established in the Charter. Our funds are separate from all the other funds on the city. We're not just a line item on the

budget so to speak. We have separate funds as they do. Once you make that relationship clear and solid from the beginning, then it doesn't matter to me whether it becomes a district or you have a department of the city.

Chairperson Gonzalez welcomed Commissioner Ammiano back to the meeting. He stated you mentioned it was an appointed Advisory Commission that gives advice to the Council in Roseville?

Mr. Habashi stated yes, on utility matters the City Council has appointed a five-member Advisory Commission. We meet with them once a month and talk to them about issues more of a technical nature that the Council more likely doesn't want to hear back because they have other businesses to worry about. That Commission gives us guidance and advice to the Council. They are not the final decision-maker in the city. They are an advisory to the Council.

Chairperson Gonzalez asked what kind of bond capacity do the City Council members have? Do they put the bonds before the voters?

Mr. Habashi stated, no. Anything that has to do with the utilities is handled through revenue bonds.

Chairperson Gonzalez asked what kind of vote, four out of five, three out of five?

Mr. Habashi stated majority vote.

Commissioner Fellman asked, what is the percentage of electricity that you generate versus how much you purchase?

Mr. Habashi stated about one-third is generated by facilities that we have part ownership in. We have a hydro-facility, which is about 250 megawatts, a geothermal facility that is a little over 200-megawatts, and a number of combustion turbine facilities that are about a total of 175-megawatts. We are part owners in all of those facilities and two-thirds are purchased on contracts. Half of the transactions that we have are with the Western Area Power Administration (WAPA). That is the entity that markets all of the federal hydropower up and down the Central Valley. Then, the other half of the contracts are with marketers.

Vice-Chairperson McGoldrick asked on the fiscal issues, has the City Council ever sought to use or borrow any of the funds that you have kept aside as your utility funds?

Mr. Habashi stated so far, we have borrowed about 27 million dollars to build a distribution system. Our total assets are somewhere around 175 million dollars. We have a debt to asset ratio of somewhere around fifteen percent.

Vice-Chairperson McGoldrick asked do you have a wall of separation between your funds and the general fund for the City?

Mr. Habashi stated yes.

Vice-Chairperson McGoldrick asked has the city ever sought to use your funds for general fund purposes?

Mr. Habashi asked to issue revenue bonds in order to do something that is city related?

Vice-Chairperson McGoldrick asked my question is a little bit along the lines of what the SMUD Board member pointed out that they kept a rainy-day fund, but actually it was a non-rainy day fund is what they originally thought for droughts. They had about a hundred million dollars there. When the market distortion hit last year, they had to deplete that fund. Do you keep a rainy day fund?

Mr. Habashi stated yes, we do. We have a rate-stabilization fund and today, the balance in that fund is somewhere around 120 percent of our total power purchase in this coming year. It's a fat fund.

Vice-Chairperson McGoldrick asked were you subjected to the same sort of market problems that SMUD had, and did you have to deplete those funds down?

Mr. Habashi stated we did not. We did though last year ask for a rate increase to a total of 5 percent for residential customers and 7/12 percent for all other classes. That is the only rate increase we have had since 1993 or 1994.

Vice-Chairperson McGoldrick asked since 1993 or 1994, the only rate increases you have had are what you just stated?

Mr. Habashi stated yes. Actually, since 1993, we have had a number of rate decreases for both commercial and residential customers. We try to keep our eyes on the bottom line making sure the reliability is there and the cost is managed.

Mr. Maynor stated the city of Austin, Roseville and SMUD have been successful in attracting the computer industry. I wonder if you could briefly comment to what extent your electric utility was a factor?

Ms. Davis stated we work with our Chamber of Commerce and provide economic development rates to a lot of the computer industry that wanted to locate in our town. They were going to employ more people. We could develop a better rate for them because they are base load users. What they really liked about the SMUD area is our reliability. Because we are a municipal utility, we can understand that our city values these customers so we have actually provided them with a little extra reliability. However, I have to admit we weren't all that friendly towards the last server farm that wanted to come to our city because they are very intensive on the load. They use as much as quite a number of homes, and after the energy crisis. Once again it is a county policy and we implemented it. So if they're saying no, we need the jobs, we need the computer industry here, then we can be flexible and design a rate specifically for this type of function, and then when the plate is full, we can close the door on it too. There is a lot of benefit and control towards helping economic development in your community through the Municipal Utility District.

Ms. Doll stated rates were certainly a factor in Austin, but with the high tech industry one of the critical things was ties to reliability. In many cases, a dedicated substation made the difference.

Mr. Habashi stated I am going to repeat what SMUD and Austin pretty much are doing. What we do with economic development is we go and share with those prospective customers the reliability and rate figures that I have shared with you today. If that is the issue that they are looking for, then it is sufficiently enough. My experience with high-tech industry is that is not enough. They normally look for other things besides electricity, reliability, and rates. They look for proximity to Stanford University, for example, and places of that nature. Most of the industries that have high consumption tend to look at Municipal Utilities first.

Chairperson Gonzalez asked if we could accommodate public comment at this time?

Mr. Maynor stated we have one question and it's a long series of questions having to do with peaking plants and your review authority. It may be the type of question that we could get answers to by e-mail. I have the address here of Jackie Williams. Mr. Maynor asked for Ms. Williams e-mail address in order to get her answers to her inquiry.

Ms. Williams stated she would not be here this afternoon.

Mr. Maynor stated that it was time for the lunchtime break.

Gloria Young, Executive Officer stated public comment would be after all of the presenters at the end of the meeting. We are taking all of the questions as Mr. Maynor indicated. In addition, before the close of this morning's session, I would like to take this opportunity to really thank each and every one of you. I recognize and appreciate that you have had or have other commitments and took the time to be here. We are very pleased to have you here and have this information to help the Commission as they move forward in their decision-making processes. I cannot let this morning go without specifically pointing out Mr. Habashi and thanking him. I have worked with him for fourteen years and if I didn't take this time to acknowledge that, I would be in trouble after this meeting.

Chairperson Gonzalez stated I would likewise join Ms. Young in thanking the speakers for coming forward. I am sure you will hear more from us, and we will in all likelihood take advantage of some of the overtures to get more information.

Vice-Chairperson McGoldrick stated I hope there are at least two-credit units for this in some graduate seminar. There is a great deal of educational-communication occurring here, and I really appreciate it.

The morning session adjourned at 12:05 p.m.

Afternoon Panel – 1:00 – 3:00 P.M.

The afternoon session reconvened at 1:15 p.m.

Members Present: Chairperson Gonzalez; Vice-Chairperson McGoldrick (was noted present at 1:49 p.m.); Commissioners Ammiano, Hall, and Fellman.

Members Absent: Commissioner Schmeltzer

Gloria L. Young, Executive Officer stated Don Dame is the Assistant General Manager of power management for the Northern California Power Agency (NCPA). Mr. Dame has over twenty-five years of electric experience including the California Department of Water Resources, Pacificor, Bonneville Power Administration and the Colorado Interstate Gas Company.

Ed Aghjayan recently retired from public service after more than ten years as the Public Utilities General Manager for the city of Anaheim. Mr. Aghjayan also served as the Deputy City Manager of the city of Pasadena and the Director of Utilities for the cities of Palo Alto and Austin, Texas. I would like to thank you again for coming and I need to also indicate that I have worked for several years with Mr. Aghjayan in the city of Palo Alto. Mr. Maynor will continue to facilitate this process.

Mr. Maynor asked the speakers to limit their comments to fifteen to twenty minutes to give ample time for questions.

Ed Smeloff, Assistant General Manager for Power Policy, Planning and Resource Development, San Francisco Public Utilities Commission stated for me this has been a little bit like old home week to be able to see a number of my colleagues and friends from the public power movement and particularly Linda Davis from the Sacramento Municipal Utility District, where I served for eleven years. You heard some impassioned arguments for the advantage of local control of the electric system and what has occurred in other cities and in California.

I wanted to speak to some of the specifics of our vulnerabilities in San Francisco and why it's so important at this point in time to increase our local control over the electric system. San Francisco, given its geography is uniquely vulnerable to power disruptions. All of our imported electricity comes through one substation at the county boundary between San Mateo and San Francisco counties, the Martin Substation. There are five overhead transmission lines and one underground transmission line that bring power into that substation. The imported power capability for San Francisco is insufficient to meet the peak demands of the City. So, we have to have in San Francisco in-city generation to meet demand when we are using electricity during peak periods.

The infrastructure in the City I think you all know is quite old. The Hunter's Point Power Plant is 44 years old. The plant at Unit 3 at Potrero is 38 years old. These plants are relatively inefficient. If you look at the key pollutants, the oxides of nitrogen and small particulates, the amount that they emit compared to a new power plant is eight to ten times the quantity on a per kilowatt hour basis. The plants are vulnerable to breakdown because of their age.

So San Francisco because of its peninsula nature, the age of its infrastructure has three particular vulnerabilities. One is for power disruptions. The second is for the environmental impact because we have to generate in the City and the plants in the City are relatively polluting. The third is very important and is the potential for market power by the owners of generation within the City. Right now, there are two owners of electric generation, PG&E and Merant, which owns the Potrero Plant. The goal of the Mayor and the Board of Supervisors in the City is to shut down the Hunter's Point Plant as soon as we can do so without jeopardizing reliability. To do that, we would need in my judgement about 250 megawatts of new generating capacity or load reductions in the City by the year 2005. There is a proposal now that is before the California Energy Commission to build a new 540 megawatt facility at the existing Potrero site which would also be owned by Merant. If that facility were to be licensed and Merant were to construct that facility, they would own within the city limits of San Francisco 900 megawatts of generation, and they would have virtual monopoly power over

generation during those hours when we cannot import all of the needs for San Francisco.

Now, historically or recently the way that market power has been addressed is through the independent system operation, which requires that the plant operate at times when it is needed for reliability and makes certain payments to the operator that allows them to recover some of their capital costs for having located in San Francisco and then limits them on to what they can receive for their variable cost. This is really the only control we have over what the prices are that are being charged for generation within the City.

Currently, PG&E takes the costs that occur in San Francisco and melds those in Northern California-wide. But there is a movement afoot at the ISO, and this is a system that has been put in place in the East Coast to move to what's called zonal pricing where the cost of the system are applied to the areas in which those costs are created. So San Francisco because it is a load pocket, because it is an area which requires more generation in it that has to be operated for local reliability reasons could end up being impacted by that new system of zonal pricing.

The Merant plant's current design is a two combustion turbine one steam turbine design, and the way it is put together is a single failure will trip off the entire plant, which means you lose all 540 megawatts of power-generating capacity. You have to have in San Francisco sufficient backup capacity so that you are still able to maintain reliability when the plant trips off. What that means because it is a single unit we are going to have to depend on the existing Unit 3 at Potrero as backup generation for years to come. That will continue to give Merant a significant market power in San Francisco.

There are alternatives to building this plant. There are a number of opportunities that exist right now in San Francisco to develop more efficient co-generation power. There is an opportunity to take the downtown heating loop and use the co-generation plant to provide both the steam and electricity for San Francisco. There is an opportunity out at Mission Bay and the new UCSF Campus to develop a power plant out there. The question right now is who is going to make the decision as to which plants get developed in San Francisco. Under the current regulatory regime, the decisions about which plants are built are those of the developers and the investors in those power plants. Right now, Merant has a head start in terms of the process that they are going through with the California Energy Commission. If that plant were built because its capacity is so large, it would crowd out opportunities to develop other resources in the City that could be more efficient.

I think this is a strong argument for local control. The argument is about who is going to take responsibility for planning for power and for procuring those resources. One of the problems that we have is that under the current regulatory

structure, PG&E, which used to have responsibility for procurement no longer has that. They are in bankruptcy and they are not creditworthy so they cannot purchase power on behalf of the customers. The state has stepped in on an interim basis to perform that role of power procurement, but they only on a limited fashion as you heard through the California Power Authority are doing any new resource development. Decisions about what new resources are being developed are left to private developers. That was the thinking when we deregulated the industry that private investors and private capital would best determine and take the risks about new development.

What's occurred since the collapse of Enron is we've seen a retreat from a willingness to invest in new power plants at the risk of the developers. We're seeing very little interest in unbalanced sheet financing and more of a movement back towards a requirement that any new power plant be backed up by a long-term power purchase agreement. We're at a point in San Francisco that if we decide we are going to rely on Merant to build the additional capacity for San Francisco, it still may not come to pass because of Merant's potential difficulties in raising capital in the current markets to finance this without a power purchase agreement.

In San Francisco, we already have an agency that has some responsibilities for the delivery of electricity. The Public Utilities Commission through the Hetch Hetchy system provides electricity to all of the municipal facilities in San Francisco and operates 400 megawatts of capacity up on the Tuolumne River and not only provides electricity to San Francisco but to the Modesto and Turlock Irrigation Districts. It seems to me that you have an opportunity if you are going to move towards a broader public power agency in San Francisco and exercise more local control over power development to build on the resources that are already available through the Public Utilities Commission. To go and start up a new utility district would require a formation of a brand new agency and raises the question about the initial funding for that agency.

In the case of Sacramento, when SMUD was originally formed, the city of Sacramento issued general obligation bonds to be able to fund the initial development work at SMUD before it took over the PG&E distribution system and before it had any source of revenue to do revenue bond financing. Under the current limitations of Proposition 13, the ability to issue general obligation bonds, it seems to me it would be difficult to find a funding source sufficient enough to allow for the startup of an independent agency like a Municipal Utility District.

On the other hand, you do have the existing San Francisco Public Utilities Commission, which has infrastructure, which has talented staff that you could begin the process of expanding the control over local sources of power. I would like to make the point that when we think about what we can do in San Francisco to think of it in terms of staging, how we gain some additional control. It's not necessarily in my judgement to gain control over the wires and pulls and the

transformers as a first stage to having more energy independence and having more local control. The City could take on the responsibility for portfolio management for planning and procuring electricity supplies without necessarily owning the wires. But it would require a change either in state law or in state regulation.

As you heard from previous speakers, direct access which allowed people to select their supplier of electricity has been closed down by the California Public Utilities Commission to protect the contracts that the state has entered into for the net open position in supply. There is a bill that Assemblywoman Migden is carrying this year and she carried it last year AB117, which was vetoed by Governor Davis last year I believe on technical grounds, but which is going to be carried again this year which would give municipalities the authority to aggregate load within their jurisdiction and to serve their customers by procuring supplies either by building their own generation or entering into contracts with other generators to sell power to their customers. This sort of community aggregation, direct access would allow the City to expand its role without having to initially condemn the distribution system. It is sort of a quicker path to local control. If the City were to do that would allow the City to exercise some decisions about where new generation is sited, what types of new generation is chosen, and allows the City to promote cleaner technologies as well such as solar and fuel cells.

If you do want to go the second step in condemning the distribution system and taking over ownership, there is a significant hurdle in state law, which is usually referred to as rebuttable presumption that is you as the three supervisors have the authority to exercise imminent domain and condemn PG&E's property, but PG&E has a right under state law to rebut that finding and to take you to court and challenge you in court as to whether or not there was a public necessity in the condemnation. That can tie things up for years to go through that. Last year, Senator Burton and Senator Nelsoto introduced a bill to delete the rebuttable presumption clause in state law. It's only been there since 1992. SMUD and others that exercised imminent domain did not have this barrier. It didn't make it through the Assembly Committee last year, and this would be another hurdle over the long term. If you want to make it easier to move to a full municipal agency, eliminate the rebuttable presumption clause of state law.

Once you're through that it is still going to be a formidable challenge to take over the system. I think one of the key issues and an issue that needs to be further investigated is what is the appropriate value for the distribution system and other assets that you would take over from PG&E if you were to operate a municipal utility. There have been a number of different methodologies that have been used in the past, but they usually boil down to one or two. One being replacement value of the distribution system minus the depreciation. The other being book value minus depreciation. Which methodology is eventually decided upon will have a major impact on whether or not in the short term electric rates

will be any lower in San Francisco than they would be if service was continued to be provided by PG&E. Over the long term, rates will be lower because you will be able to use lower cost of capital to improve the infrastructure and over time that is significant enough that that will allow for lower rates in San Francisco. In the short term, what will determine whether rates are lower or not under a public power alternative is the price that will be paid for the PG&E distribution system.

Commissioner Hall asked, Mr. Smeloff six or seven months ago I sponsored a resolution that was unanimously approved by this Board to establish a Department of Public Power, and you alluded to that in your presentation. I think you said there is a law change required. If we were to establish a Department of Public Power within the existing PUC or a separate department, what is exactly required—a law change?

Mr. Smeloff stated you have the power as the Board of Supervisors to provide direction to the administration on the organization of City departments. It is my belief that the intent of the Mayor in appointing me as Assistant General Manager for Power Policy Planning and Resource Development, and the staff that we have now assembled really constitutes the beginnings of an Office of Public Power in the Public Utilities Commission. What I was referring to was the law change that the City would need to have in order to be able to sell power beyond just municipal agencies and sell power to retail customers. Right now, direct access, which was in place in the past had been ended. So the City could not under current state rules sell power to a business or retail customer. That is what would have to be changed either by the CPUC or the state legislature and that is what Assemblywoman Migden's bill is about.

Commissioner Hall stated we could go ahead and set up a Department of Public Power within the existing PUC whose function it would be to buy, sell or aggregate power, not do the distribution at this point. Is that correct?

Mr. Smeloff stated you could set that up. You could buy power and we do buy power on the day to day market and contracts for the municipal load. What we can't do under the current law is sell power beyond the current set of customers--to retail customers.

Commissioner Hall asked if we could sell to wholesale customers.

Mr. Smeloff stated we do sell wholesale power right now as the Hetchy Hetchy Water and Power System to SMUD, Modesto, and others. We can't sell retail in San Francisco.

Commissioner Hall asked is that what you are defining as distribution? Are you defining as distribution as part of that the ability to sell to retail?

Mr. Smeloff stated no, it's possible and it was done earlier. You can sell electricity over PG&E's wires without having any responsibility for the distribution system. That is a possibility. That's what would be allowed under AB 117. We have the ability to wheel over PG&E's lines and sell to end users.

Commissioner Hall asked if we were to set up, what would you recommend as far as setting up a Department of Public Power? Would you set it up within the PUC? Would you make it a separate entity, a separate department? With your experience, how do you see it best being set up?

Mr. Smeloff stated the Hetch Hetchy water and power system is a multi-purpose system. But, its primary responsibility is to assure that there is a water supply for San Francisco and the Bay Area. To try to pull the power function out of the current PUC would be difficult to do because the Hetch Hetchy is so central to the power delivery infrastructure. Not only do we own seven power facilities in the Sierras, we also own about 110 miles of transmission lines to Newark within the Public Utilities Commission. It is my recommendation to build on what you have through the existing Public Utilities Commission structure.

Commissioner Hall asked but to set up a separate division, a separate Department as in my original resolution, a Department of Public Power that would do everything short of distribution.

Mr. Smeloff stated that is correct to set up an enterprise that would have responsibility for managing the power functions within the Public Utilities Commission which would set rates and bill customers. A key reform that needs to happen in my judgement is delegate to the PUC the authority to issue revenue bonds to be able to develop new resources, not only on the power side, but water and sewer services as well.

Commissioner Hall stated that could be set up everything short of distribution setting that aside right now to aggregate, to develop resources, to procure generation, etc. That can all be done within an existing Department of Public Power structured within the PUC.

Mr. Smeloff stated that is correct.

Chairperson Gonzalez asked the law change that you were discussing initially relates to the long-term arrangements that the state has made with certain power generators--is that true?

Mr. Smeloff stated the reason that the state has cut off direct access is because the state has entered into a number of contracts with power generators over a fairly long term at prices that are now above market rates. If they were to allow customers to opt out of being served by the state then those contracts could be in part stranded, and those costs would then be imposed on the remaining rate

payers who are taking service through those contracts. That's the reason for the prohibition. Any direct access would have to take that into account.

Chairperson Gonzalez stated the reason for that is if you allowed certain municipalities to engage in the sale to retailers, you would essentially be circumventing the contracts, and those contracts have guaranteed amounts of energy that are going to be purchased. True?

Mr. Smeloff stated that is correct. Many of those are taker pay contracts with fixed amounts that have to be delivered so the state would have an obligation to pay for power that it would not have fewer customers to deliver it to.

Chairperson Gonzalez stated I know these are long-term contracts. Any purpose in discussing whether or not there is a sunset provision on the direct access law?

Mr. Smeloff stated the CPUC has by order eliminated direct access and could re-institute it by a future order. There's no date in which that could be done. If it is to be opened up, all of these issues related to stranded costs are going to have to be dealt with. There are several of them. PG&E has costs that were incurred during the time of price volatility when the markets went haywire that they still have not recurred. Those costs would be amortized over time. Those costs would probably be assigned to any group of rate payers if its through municipal aggregation or other direct access. Those costs would be assigned to them as well. The state has not fully recovered all of its costs when it was in the short term market buying power at very high prices. Those probably would also be assigned to any group of customers that got direct access. The third is the long-term power contracts that the state has an obligation. It is possible to put together a direct access program or community aggregation program, but it's going to have to take into account these obligations that have been previously incurred.

Commissioner Hall asked Mr. Smeloff to define the difference between retail and wholesale customers.

Mr. Smeloff stated a retail customer is a end use customer who takes power from a retail utility usually at a lower voltage level, although the voltage levels can vary. The wholesale customer is a electric utility or an independent power producer who is not directly regulated by the state and which transactions between wholesale entities are regulated by the federal government.

Commissioner Hall asked then the law that Commissioner Gonzalez is referring to applies to both retail and wholesale or just retail?

Mr. Smeloff stated the direct access law applies just to the sale of power to retail customers.

Commissioner Hall asked then we could engage in sale or trading of power, aggregating and trading, to wholesale?

Mr. Smeloff stated and we do do that. That doesn't allow us to sell electricity to any San Francisco business or retail customer. We could sell it to SMUD or we could sell it to Modesto if we have surplus power, and sometimes we do.

Commissioner Hall asked is that process formalized, or is that a process that can be much improved on at present in the City in your opinion?

Mr. Smeloff stated yes. In fact, we are beginning to institute some reforms in San Francisco on the way we look at anything more than short-term power purchases. I don't want to get into this, but I am sure the Supervisors are well aware that the City got into a long-term with Calpine which now is significantly above market rates. In my view as we look back on this, the structure for making that decision at the PUC was not wholly adequate.

Commissioner Gonzalez stated to Commissioner Hall, I want to clarify two things. I think that the discussion versus wholesale versus retail when we are talking about the San Francisco market has to be placed within the context of what you referred to Ed, related to the Hetch Hetchy system really already providing energy to certain users. They just happen to be essentially City users. So in a way, we are wholesalers, but we are also retailers at the same time. Is that a fair characterization?

Mr. Smeloff stated that is a fair characterization. We have an agreement with PG&E called an interconnection agreement where they agree to provide distribution services for municipal load in San Francisco. This agreement goes through 2015, so we currently are able to use their lines since we don't own any transmission lines this side of Newark to deliver that power to the municipal customers like the Airport, City Hall, and the Water Department.

Chairperson Gonzalez stated the whole question of whether or not the City can be a wholesaler and the likely advantages of that need, direct access law affects whether or not there is a demand for wholesale market and activity. Is that fair to say?

Mr. Smeloff stated certainly. There is a limited number of trading partners right now under the current structure because things have been frozen. Many customers who were buying power from alternative suppliers have defaulted back to their current utility. So there are a limited number of counter-parties to trade wholesale power with. Furthermore, the City is even more limited. Under the Raker Act, we can only sell power that is generated at Hetch Hetchy to other public power entities. We are prohibited under federal law from selling wholesale power to PG&E or any other investor-owned utility for resale.

Chairperson Gonzalez welcomed Commissioner McGoldrick to the hearing.

Commissioner Hall stated I wanted Mr. Smeloff to illustrate the advantages or the disadvantages of a takeover of the PG&E distribution system right now. What would be the advantages to the City assuming law was in order, everything was in order? What would be the disadvantages?

Mr. Smeloff stated in my judgement the principal advantage to owning the distribution system would be the ability to plan for small-scale generation like solar and fuel cells and to target the implementation of energy efficiency and load management to the parts of the system that are congested, to the parts of the system that would require new investments. If you look at the distribution system in an integrated fashion, you can in my judgement lower the cost if you are planning for new generation and upgrades in the distribution system in a comprehensive fashion. Where we are going in the utility business is for smaller-scale generation, cleaner generation, generation that is located closer to load so you end up losing less electricity in the transmission, and you are able to optimally use the distribution resources that are in place.

Commissioner Hall asked if this planning is the necessary ingredient, could this be worked out in place with PG&E operating as they are today?

Mr. Smeloff stated theoretically, you could have a cooperative relationship with PG&E where you jointly did planning for the addition of new resources. Theoretically, it could work if PG&E were willing to cooperate. There is an institutional barrier that PG&E has. PG&E is driven by its rate of return and making transfer payments to its parent corporation. To the extent that they may lose revenues on their distribution service through the implementation of solar or other distributed generation technologies on the customer's side of the meter, they will put obstacles to having that happen. They make money by having more power flow over their wires, so the incentive is to put obstacles in the way of these systems that lessen the amount of electrons flowing over their wires.

Commissioner Hall asked what would be the cost of taking such a system over?

Mr. Smeloff stated that I think is the next step that the Board of Supervisors would need to look at. If you were seriously wanting to explore this, you need to do a very detailed inventory of PG&E's assets within San Francisco. You need to know how many lines of wire, what the condition of it is, where the transformers are to come up with an evaluation of their value. Then, you need to look at the different ways the courts have treated compensation to companies like PG&E when you condemn and take over those. The big difference will be whether its replacement value minus depreciation or book value minus depreciation. If it's book value minus depreciation, it's going to be a lot less.

Commissioner Gonzalez stated Commissioner Hall just so you know, Mr. Maynor has prepared future public hearings on the financing question alone in this particular area that you are going.

Commissioner Hall stated it seems to me that if the City were to pick up the PG&E distribution system in the best sizable amount of money and from what I understand it's quite dated, and if we were to invest in that system to bring it up to date, we'd be in the same position as PG&E not wanting to lessen the amount of electricity running through those wires. We would probably want to protect that system. It doesn't matter what my position is. Your assumption that PG&E would be fighting any alternative to that system, I think the City would probably be in the same frame of mind after we've once invested in it. That's why I was asking the question about working in conjunction with them regulating a planning process that results in new generation that we have control over the regulation, but not giving up the ability to control the situation.

Mr. Smeloff stated let me respond to two points. The first is that I think you are correct in characterizing the system as old and in need of improvements. The future cost to ratepayers would be the cost of making those improvements. A municipality can do it with tax-exempt financing. PG&E will have to do it with taxable financing. There is a difference there. It will be less costly for the City to make the improvements.

Commissioner Hall stated it would be less costly but probably more costly in the fact that we don't have the expertise that they've had in doing this in the past. One offsets the other.

Mr. Smeloff stated the other point is that if the City makes those improvements, it will have a fixed cost of the system and it needs to recover those fixed costs. The City will then have to balance policy goals of enabling clean distributed generation versus setting rates at a level sufficient to recover the fixed costs in the system. PG&E could do the same. As a result of diminished load through energy efficiency and distributed generation, go back to the PUC and apply for a rate increase. One reform at the state level is to create a state incentive structure so any lost revenues as a result of energy efficiency and distributed generation could be recovered by automatic increases in rates through PG&E. There are ways of doing it of incenting a system for PG&E that could produce the same results.

Commissioner Gonzalez stated Commissioner Hall I think you are raising some good questions. My thoughts in listening to Ed really the planning point that you raised seems very compelling to me, which is when you have the private corporation that has profit incentive the likelihood that they are going to work with a municipality towards things like energy efficiency and conservation and these alternatives that are going to bring down essentially the flow that they rely on, I think the logic is that it's not going to be high on their priority list. The other point

that you raised that I think is something we have to confront is I believe you said 1992 change as it related to our ability to condemn a distribution system and engage in that whole process of trying to acquire it which is what Supervisor Hall raises. It sounds to me that because of the law change the burden has changed, and it could be much harder for a Municipal Utility District or a Power Authority or a PUC to even get to that place.

Mr. Smeloff stated the burden of proof is the finding and the public necessity for public condemnation does not serve a higher public purpose. You have as Supervisors for other property that is non-utility your exercise of imminent domain is conclusive. It's not final. There's no additional review, but PG&E can tie things up in court for a number of years. That is why I tried to make the first point. I don't want to lose the larger point which is one that I think that Supervisor Hall was also trying to make which is that we have this opportunity of making some real important decisions in the next three to five years about what major new sources of power are going to be located in San Francisco whether there's going to be a large generator at Potrero, or whether we are going to do some smaller scale but still significant size generation in different parts of the City. The City has more ability to do that if it has more local control. It doesn't need to own the distribution system to make the impact on those decisions. If you make it a precondition to own the distribution system, PG&E will tie this up, the attempt to condemn the distribution system for a very long time.

Commissioner Hall asked Mr. Smeloff, you say if we make an attempt to get involved in the distribution system, you think it will be tied up legally regardless of our efforts to increase generation or supply?

Mr. Smeloff stated I am saying that the critical issue facing San Francisco right now is developing newer cleaner sources of generation and that is where we should put our focus. By trying to get this community aggregation bill passed and getting the authority to sell to retail customers as the City of San Francisco you then become a creditworthy buyer of electricity, and you can finance new power plants or enter into power purchase contracts with others like the California Power Authority, who could finance these plants and then you could impact the type of technology and the location of technology. My point is that's where we should focus our attention immediately, and then the issue of the distribution system is one that the Supervisors can look over the longer term.

Commissioner Hall asked or the PUC or the Power Authority or a MUD or whoever?

Mr. Smeloff concurred.

Commissioner Fellman asked with respect to your last point, Mr. Smeloff, right now without any further change in law, couldn't the City and County of San Francisco encourage having green technologies or green buildings and energy

efficiency go forward as a planning principle rather than an energy-purchasing principle?

Mr. Smeloff stated yes, we can. The Mayor appropriated in this year's budget fifteen million dollars under the Mayor's energy conservation account for energy efficiency in public buildings. The Department of Environment has obtained some of the public goods funds that are collected by PG&E under the current rate structure for doing energy efficiency in commercial buildings. The voters passed bond authority to do solar and other renewables in San Francisco so those things can go forward under the current structure. You heard from the city of San Jose. They are doing a number of other things that we should look closely at that we could do here in San Francisco given the current structure and situation.

Commissioner Fellman stated she had another question on barriers to retail sales by San Francisco. Suppose in the absence of creating a Public Utility District of some sort or a Municipal Water District or Power District, whatever we decide to do, we just said we are going to sell at retail. Is it the franchise that PG&E has within the geographic boundaries of San Francisco that would prohibit retail sales even if whatever entity the Supervisors decided to set up would be willing to be regulated as a public utility?

Mr. Smeloff stated no, it's not. The franchise does not give PG&E the right to have a monopoly over the sale of commodity into San Francisco provides the franchise the wheel to distribute power into San Francisco. With direct access, there were other providers selling electricity into San Francisco prior to July of last year so if you could get over the hurdle of the prohibition on direct access, then the City could sell under the current franchise to retail customers. That's not a barrier.

Commissioner Fellman stated even without direct access being open, is there a window of possibility where retail sales could occur, but they would have to be regulated by the California Public Utilities Commission?

Mr. Maynor stated I am not aware of it. I think your point on the aggregation bill was the one that would allow you to do that. There may be some understanding about aggregation. That's a retail term so that would be the way to accomplish what Mr. Smeloff was talking about. That would be in the absence of condemning a system. The other thing to keep in mind is you don't have to condemn a whole system. Cleveland, Ohio for example, part of the city is served by an investor-owned utility, part of it by a Municipal Utility. So there are options there.

Mr. Smeloff stated that's a good point. Once you do this inventory, you may decide that there are some parts of the system that are so old you don't want to buy that. That it would be better for the City, particularly if the policy of the City is

to buy underground service, to go directly to providing new hookups or new service in that part of the City.

Commissioner Fellman asked how much of the City's own load or its tenant's loads are provided by City power today?

Mr. Smeloff stated let me give you the numbers that I know about. PG&E's peak demand in 2000 was 950 megawatts. I will explain why this is not apples to apples. The City load that we sell through the Hetch Hetchy Water & Power System peak demands 120 megawatts, but that includes the Airport, which is our biggest customer, and it includes other load outside of San Francisco, a lot of pumping stations and pumping load of the water systems outside of San Francisco. I don't have the precise figure, but I think we can drill down and get that, to know what portion of the load served by Hetch Hetchy is actually physically within the City of San Francisco.

Vice-Chairperson McGoldrick asked are there advantages and disadvantages that we would go into the public power business by a vote of the Board of Supervisors as opposed to the vote of an electorate?

Mr. Smeloff stated I think there is a couple of reforms in the City Charter that would be very valuable for a Public Power Agency. I think the most important one is delegating the authority to issue revenue bonds. Absent the authority to issue revenue bonds, it is very difficult in a timely way to develop the infrastructure that you need. There also needs to be reform of the rate structure. Currently, the Hetch Hetchy Water & Power System sells power to some customers at below cost and in the last couple of years made significant transfer payments to the City General Fund. In the future, if those were to continue long term, it would be difficult to get a credit rating for the public power agency and to issue debt. There is nothing wrong with subsidizing some customers, and most public power agencies do that, but there needs to be some quantification to make that an explicit policy on how those subsidies occur. There is nothing that would prohibit a regular transfer of funds, but it needs to be a predictable amount based on some formula so that when you project your future revenues, you will be able to show to the bond holders and to the credit rating agencies that you have a predictable supply of revenue.

Don Dame, Assistant General Manager of Power Management for the Northern California Power Agency (NCPA) stated that he has a brief slide show. Northern California Power Agency was formed in 1968. We're currently headquartered in Roseville. The point of the slide is that we currently have twenty-one public agency members. We go as far north as the City of Redding and as far south as the City of Santa Barbara. We have some diverse members. Bay Area Rapid Transit is a member of NCPA, and we do the dispatching and scheduling of power for BART. We are essentially what I would like to characterize is a wholesale side supermarket. Most of our members that are in

the power business are retail distribution entities. They actually do the final distribution of the power and send the bills to the end users. We do the building, operating, and financing of the power plants and the contracts necessary to deliver that power to the cities and also arrange for transmission and do the day to day scheduling and the buying and selling of electricity around those loads and resources.

Another point I would like to make here that picks up on one of the themes that I have heard. There is really no mystery to electricity. The physics are very well understood. One third of the power in this country is sold by public power agencies. The expertise that you need to run and operate a public power system from the business side and the operations side exists. There is no shortage of folks to give you the expertise and capabilities that you will need to do this should you choose to do so.

On the right hand side of this slide you will see the darker shaded area which is essentially very small. That is essentially PG&E's service territory. Most of our members are clustered throughout that PG&E service territory. Santa Barbara is the only member that is in Southern California Edison service territory.

Vice-Chairperson McGoldrick asked if the color coding means anything, the green, the red, the black, the blue?

Mr. Dame stated that's when I mentioned we were a supermarket. The red members that you see there are actually members of a ten-member power pool where they join their resources and loads together and we dispatch simultaneously. The green members tend to be associate members. A lot of them aren't in the power business per se like the Placer County Water Agency, the Calaveras County Water District. Lassen Municipal Utility District is indeed in the power business, but they're not in our power pool. The blue members are involved in power plants and Truckee Donner is a lower retail distribution company that is not involved in power plants or the associate member activities.

Next slide—I hope you can see this. They say a picture is worth a thousand words. Who would ever believe we had a bankrupt huge investor-owned utility? That is one of the new PG&E service vehicles. I don't suppose you have seen those out in the streets out here, but I think that's a dual-fuel vehicle.

Next slide—we happened to get a clip from Enron before the demise. I put this up here because this is the antithesis of public power. Enron came in. They don't have roots in the community. Unlike both PG&E and public power entities, they came in with a big ego. They really didn't have any magic formulas. It was buy low, sell high, maintain political connections, use creative accounting when necessary, sell your stock before it drops, shred records, and if that doesn't work, leave town. I put this in here because that is just the opposite of what public power is. They maintain the responsibility and have to face the music if and when they do make mistakes.

Next slide--what was the driving force behind deregulation? Well in the mid-nineties everybody was lamenting that California power prices were half again the national average. Indeed, PG&E's residential rates were thirty-four percent above the eight-odd cents national average for residential customers. After five years of deregulation, now PG&E's rates are 77 percent above the national average, not a lot of prospect of going down. Again, sometimes we may do things for the right reasons, we get the wrong results.

Next slide—this is just a review of the general classes for PG&E. Right now, residential rates have gone from about 12 cents to 15 cents. Commercial from 11 cents to 14 cents, industrial from 4.9 to 9.8 cents, virtually 100 percent increase, in agricultural 11 cents to 15 ½ cents, a 30 odd-cent increase. A very difficult environment for businesses to deal in with power prices that go up to these amounts and with relative unpredictability.

Next slide—what is the real cost of deregulation experienced in California and throughout the west? It's been estimated to be 50 to 100 billion dollars. It is very difficult to even conceive of that amount of money. You put it in terms of residential families in California, and that's between five and ten thousand dollars per family. In retrospect, we could have not had deregulation and given residential customers electricity for ten years based on average California consumption and usage.

Vice-Chairperson McGoldrick asked what period of time is that for?

Mr. Dame stated that covers the period of the last three years and the projected increases out through 2010.

Vice-Chairperson McGoldrick asked so that is divided by eleven in terms of an annualized amount?

Mr. Dame stated that is not an annualized amount. That's the total amount.

Vice-Chairperson McGoldrick asked that's a total amount over an eleven-year span that you just described?

Mr. Dame stated that is correct.

Vice-Chairperson McGoldrick asked if I wanted to annualize, I would have to divide those numbers by eleven?

Next slide—what went wrong? Electricity is a very complex machine physically, but we had all those problems solved. We had the appropriate people in place to run this system on a day to day minute to minute basis. We added on to that a much more complex business system. The Independent System Operator,

which I assume you have heard about many times before, when they send out an invoice to us and we are relatively little guys, the Northern California Power Agency and aggregate about ten percent of the size of PG&E, that invoice has about 50 megabytes of data in that invoice. They have to send it on multiple compact disks. Rules and rule changes—we are currently on Amendment 42 of the ISO in just the last three and a half years of this change in system operations. For any of you who have perused the ISO's web sites, there are hundreds of thousands of pages of rules, regulations, and information on that. Literally, impossible to stay current and knowledgeable on what's going on in real time. Sometimes we like to characterize this as the "Bill Gates problem," simply programmers gone wild. We can write codes, let's write a lot of it. One of the losses we have seen here is really no obligation to serve load. This is one of the things that PG&E has lost unlike public power entities. It turns out it was based on high hopes, and it turned out to cost us high dollars and as we saw just a year ago—blackouts.

Next slide—put this in long historic context. The blue line on the bottom is what we call the nominal price of electricity. If you go back to 1920 all the way to the left, it was about eight cents a kilowatt hour. If you look all the way to the right, it's about eight cents a kilowatt hour today, national average price. Those are what we call nominal or as spent dollars. If you were a worker in 1920, and you bought a kilowatt hour of electricity, you would pay ten cents for it. If you were a worker and you buy a kilowatt hour of electricity on average throughout the country today, you would pay ten cents for it. The redline adjusts for the changes and purchasing power over that period. Ten cents was worth a lot more money in 1920 than ten cents is worth in the year 2000. What you see is an inflation-adjusted price, over the year 2000 dollar price of electricity, going from about 60 or 70 cents a kilowatt hour back in the 20's dropping to about eight or nine cents a kilowatt hour today. The point of this slide is electricity prices have been falling throughout the last century. This wasn't a system that was broke and in need of repair.

Next slide—I will show you one little tick in here. If you just change the scale on this and you go from 1950 to 2000, you will see that during the latter 70's and through the 80's there was a rise in the price of electricity. This is if some of us can remember back to the energy crisis when prices were short and oil prices were escalating. There was an up-tick in prices, but then the latter part of that curve you will see from the mid 1980's onward were falling again to as low as they had been in any time in the last 100 years.

Next slide—Now let's see what California does against those national averages. The red and the blue lines are the national average residential prices. The green line and purple line are the California average prices. You can see in 1975, they were tracking national averages. They have tended to go above national averages over the last 20-25 years. You will see a hook at the end of the

California numbers—those were the top lines. That is when deregulation took hold here in California, and it started to move us off the map.

Next slide—why are those prices in California higher than national averages after 1980? We had a lot of excess capacity. We brought some expensive plants online like Diablo Canyon. We had a very large reliance on natural gas and oil versus coal and some very strange environmental rules. We had PG&E and SCE primarily planning for deregulation and not what was good for their end users.

Next slide—are we out of the woods? What did bring prices down early last summer—mild summer weather, lots more power plant availability, gas prices plummeted, lots of conservation, lots of public awareness bringing about a significantly reduced demand and regulatory uncertainty as to whether some of these producers were really going to get their fingers wrapped for charging these very high prices. I think the most significant component there was luck.

Vice-Chairperson McGoldrick asked would you add to this the massive purchases that the state made?

Mr. Dame stated that may have had an impact. I don't personally think that had a significant impact on bringing high prices down. I really think it was the lack of sustainability of \$300 and \$400, 30 and 40 cent a kilowatt electricity prices. Demand was really dramatically reduced and there was no way the public was going to sustain those prices. I don't think the state entering long-term contracts had anything to do with it although everybody wants to take credit that they did, provided the relief that was necessary to bring prices down. I don't think it had a demonstrable impact.

Vice-Chairperson McGoldrick asked would you say then conversely that if those contracts were able to be renegotiated downward that they would have no effect upon the market as well?

Mr. Dame stated I don't think it would affect today's market especially. What we're seeing is just today is about 1.7 cent a kilowatt-hour-price off-peak and about 2.5, 2.6 cents per kilowatt-hour on-peak. Those are the day to day wholesale trading prices that we're seeing.

Next slide--do we have a stable power state here? Over the last twelve or fourteen months, we've seen over 500 energy-related bills go through our state government. We've seen Southern California Edison bail out legislation. We've seen PG&E and Enron. I should have had quotation marks around the state all in very suspect financial condition. We've seen a lot of Munis bashed in my opinion for doing the right thing throughout this whole period. We've got a whole host of new state agencies alongside the existing ones. I'd hardly describe this as a very stable power environment.

Next slide--one of the things that we've seemingly lost in this is the efficiency of integration. When we talk about integration from a power perspective, we're talking about the union of the loads, the ultimate place where electricity is consumed, transmission (our shorthand is XM), and generation (where power is produced). There is a very large efficiency in planning and designing around those loads the most efficient amounts of generation and transmission.

Economic dispatch is not a new terminology. We've used it for years and years in this business. On a day to day basis, we always try to load the most efficient plants first. We always try to control the system in such a way so the lights do not go out. One large utility controlling loads, transmission, and generation has near instantaneous total information upon which to act, not only instantaneously but looking out over a 30-day, 6 months, 5 years or what have you. What you end up with is reasonable cost and high reliability.

Next slide--what is our prescription for public agencies? You'll hear it over and over again. Really getting in the power business is not about whether it's cheaper or more expensive. Within a hand-wave it's going to be in the neighborhood of the same cost if it is done right. It's about local control, building and owning your own power plants, undertaking that obligation to serve the members of your community, imposing and promoting conservation where it serves your purpose. This last black hole here is absolutely paramount. The customer always comes first. I know of no other power structure where the end use customer is the reason for all the day to day actions of all the staff involved in delivering those kilowatt-hours to load. Certainly something we would like to see is integration with local, state, and a national energy policy which we don't really have just yet.

Next slide--stupidity got us into this mess, why can't it get us out? Perhaps if it could, we would be out of this mess already. With that, I will answer any questions.

Vice-Chairperson McGoldrick asked do you know of any other public power companies that have had increases greater than the PG&E increases?

Mr. Dame stated that some of our folks were not immune and indeed were impacted by the system. The Truckee-Donner Public Utility District had rates that were in the neighborhood of 6.8 and 6.9 cents a kilowatt-hour. They're not in the ISO operator's or PG&E's control area. They are in Sierra Pacific's powers control area. They were short and had to go out on the market for new wholesale supplies, paid about 7 1/2 cents for their wholesale supply. They've consequently raised their retail rates to about 10 cents a kilowatt-hour, which is about a 40 odd percent increase in their retail rates. Also, the city of Palo Alto which had amongst the lower power rates in California raised their rates 43 percent approximately a year and a half to two years ago.

Vice-Chairperson McGoldrick asked do you know if this is because the amount of distributive energy that they got was of some disproportionate amount compared to other public power entities buying from non-public sources?

Mr. Dame stated most of them had a complete portfolio which virtually had every kilowatt-hour accounted for in terms of having the wholesale contracts and generation available to cover. Some of them did not have entire coverage of their supply requirements. Consequently, when the prices hit \$300, \$400 and \$500 a megawatt hour a year, a year and a half ago, and these folks even though they were only covering maybe 10 to 25 percent of their requirements on spot market purchases, they went up radically and indeed, they had to raise their rates to cover that. We went out almost a year ago this month and locked up a long-term contract for 10 years with Calpine Corporation for 6 1/2 cents a kilowatt-hour. As we speak, that's probably 2 1/2 cents out of the market rate now. So in order to serve your customers, diligence in managing your portfolio is required.

Mr. Smeloff stated I thought that was a superb presentation. I agree with all of it, particularly the point that he made about the cost effectiveness of integrated systems and the fact that historically utilities have dispatched based on the economies. We've dispatched the most efficient units first. So, the complexity of the new business system has added, in my judgement, costs to the overall delivery of electricity.

Ed Aghjayan, former Public Utilities General Manager, City of Anaheim and currently a strategic consultant on energy issues to several governmental agencies stated I think my introduction indicated among other things that in the last ten years I was General Manager of Anaheim Public Utilities. Since I retired in the past year, I have been working as a strategic consultant to about a half dozen cities and agencies in Southern California that are concerned about their energy picture and are interested in municipalization. I thought it might be useful, since I have the history of having gone through the deregulation process with Anaheim (and having played a role in what the Munis negotiated as well as looking at what the options and problems are with the system) is to try to be as plain speaking as possible to give you some idea of what went wrong in the simplest fashion, and what you can do about it. I respect the fact that you are local government here, and to me local government is where you have to take responsibility for your decisions. This is something you deal with everyday. It is one thing to be at the federal and state level where you can sort of talk in some sort of generic global fashion about what's going wrong and what you should do about it. But when you are in your position, you have to make decisions that affect people.

Let's just talk a little bit about the history of AB 1890. It's worth talking about the basic difference between where the municipal power systems ended up and where the investor-owned utilities ended up. The municipal systems argued

during that entire process (it took a couple of years through the hearings), that we do not want to give up control of our power supply because that is what we can guarantee we can deliver to our customers. At one point in the past, Anaheim had no power generation. It took twenty years to get in the business and did not want to get out of the business because we knew what would happen if we did. So when the law was passed, the law contained provisions for municipal systems to maintain the term we use "vertical integration." All it really means is we continue to own our power plants, and we didn't have to sell them. If you talk to investor-owned utilities now, and I've listened to many speeches and conversations at different cities I'm in, they will be very quick to point out to you that whatever went wrong with deregulation, it isn't their fault because they are only in the energy delivery business. They just deliver the power. With that caveat I want to offer to you that something magical happened, not necessarily positive magical. On April 1, 1998 when deregulation took effect (actually I think they made it effective March 31st to avoid the April Fool's Day comparison), the average ratepayer became divorced from their power supplier. They didn't know it, but they went through a divorce. Up to that point, they had an equity ownership in the local power plant. After that, they were buying power from the grid. They became a renter on the market compared to a homeowner prior to when the power plant was regulated.

The investor-owned utilities were required to sell 50 percent of their thermal or generation. Most of them sold most of it, and it makes good business sense as to why they did because why would they hang on to investment when they were basically holding on to a risk. If power prices dropped down like everybody thought they might do, then they might be stuck with overpriced generation. They found they could sell it for more than book value, sometimes two to three times book value. In fact, they were protecting their shareholders by doing so. They were also aware of the fact that the other side of the coin was what happens if prices go up wasn't their concern anymore because they were no longer in that business. They just distribute the power.

In the one respect you have entities that are protecting their interest and their rights by hedging their bets and getting rid of their generation so they don't have investment in the market. On the other hand, you have ratepayers who do not even know they have been through a divorce who have no protection on the other side of that. This entire model depended upon quick entry into the market by a number of other players and prices dropping rapidly. As we know, the sale of these systems went to about a half dozen or less new players in the business.

About a year ago, I was being interviewed by a reporter who didn't seem to understand this is why prices were going up so fast, and I asked her where do you live? She said, I live in Huntington Beach. I said okay, you know where the power plant is on Pacific Coast Highway. She said, you mean the Edison Plant? I said it's not an Edison Plant. She said I know it's an Edison Plant. I said go take a look at it. The plant looks the same, but the sign in front is different.

That's the problem. It is not owned anymore. You used to own that like you own a house, and you don't own it anymore. That is why DWR had to go in the business to be able to guarantee power supply, and that is still where we are right now. Prices have dropped, but the problem and the situation remains. In terms of the city's ideal with the agency's ideal were a number of emerging issues that are facing them that effect the industry. One is who is going to invest in power generation and at what cost? Secondly, there has been a degradation in the reliability of distribution systems. A lack of funds, the negative side of performance-based rate making has all gone to result and distribution systems being neglected. In general, I am talking about the investor-owned systems. Those reliability needs need to be upgraded.

The transmission network is kind of a disaster right now. It's headed for a show down. The federal government is attempting to establish regional transmission organizations in other parts of the country, and hopefully will create a model if they think they could move to California. But right now, for example in Anaheim's case, since 1996 the cost of transmission has gone up some 11 million dollars. That's on top of 300 million revenues, so there's about a 3 percent, 4 percent effect on the rates just in terms of increased transmission costs. They were high before. There is a question about the future of direct access. We don't know whether we will be allowed to do that anymore. We hope that the community aggregation bill that Ed Smeloff was talking about that we will, but we don't know. So that door might be shut.

We still have the issue of living with a volatile power supply market. Prices are low now, but they will go up again. How long and to what extent will the state be in the power business? I don't think the state wants to be in power business. If they are not in the power supply business, who is responsible for that planning, who is responsible for that capital investment?

I want to get back to this cost of money and power generation issue. There's been sort of an Enron effect in terms of the creditworthiness of those entities who have been doing construction of power plants. There have been a rash of power plant cancellations. The cost of money for these entities is now reaching in the 12 to 14 to 15 percent range. There was some discussion about the efficiency of the new power plants, and I agree with that. I want to give you some comparisons from a chart that I had come in contact with. I have been working with a couple of my clients, who are participants in the Magnolia Project, which is a publicly planned project. Southern California Public Power Authority is building a 240 megawatt plant spearheaded by the city of Burbank on the city of Burbank property within the city on an existing power plant site. This is going to be a combined cycle state of the art in terms of environmental quality and efficiency facility. There are seven public power participants in this project.

When we did a comparison of that project for the purpose of putting information on the official statement on the bonds that we hope will go out in the next several

months, we came out with a total of a 2005 price of about 3.8 cents per kilowatt hour at the bus bar. That includes fuel costs, gas costs, and investment costs. When we compare that to other privately built plants by Calpine, Merant, Mission, Pacifcor, Sempra, Constellation of similar construction, combined cycle, similar efficiency levels, we find that they have entered into contracts with DWR for prices between 4.7 cents and 6 cents a kilowatt hour. When you break down the reason for those differences, we find that the fuel cost is about the same for all these plants, but the capacity prices in most cases double or more than that of the Magnolia Project, which is a joint action agency and public power project. Why is that so? I will give you two reasons—high interest rates and profit margins. So if the future of the business and the industry is such that we're talking a possible savings of 30 to 40 percent by engaging in public power projects where we're expecting an interest rate of about 5 percent, that something has to be considered in your thinking and in the thinking of the policy makers in this business.

I want to get back to community involvement in public power. I deal at the local level with mostly elected and appointed local officials that have their fingers on the pulse of the community and for the most part where the community has their fingers on the throats of these officials. Most crises that deal with failures of business and economic systems do not stir local officials in the public to cries of action. Examples are savings and loans failures, even Enron failures—the distrust in accounting and auditing standards. Even rising interest rates don't tend to end up at the local Council Chambers with demands for action. This is seen as problems for sure, but not generally affecting us directly or within the sphere of our influence. But every once in a while, an issue comes along that crosses the line and becomes a matter of public policy. I am making a case here as to why I think deregulation is a matter of public policy and solutions are demanded at the local level. Three times in my career I've seen it happen. Once was the oil embargo and fuel shortages in the late 60's, early 70's. The second is when nuclear power plant disasters and plants that weren't built caused bankruptcies and skyrocketing prices. The third is the most recent one with California deregulation.

Everyone in the community understands that the outcome affects their lifestyle and results will be lasting. It is by definition of public policy is that we won't leave it to the experts to decide. We as the public will participate in the debate. As mentioned earlier, I work with about a half dozen agencies and public entities and for them, they have about five issues that they need to address that they think is important for their communities. One is the quality of life. As prices rise, they find residential customers being seriously impacted. Second is business viability, and I want to differentiate between that and economic development. Business viability is a whole bunch of customers that are on the borderline of profitability when you suddenly raise prices 40 percent, they're not profitable anymore, and they're not going to stay in business. Third is economic development. I worked with one city that just purchased a 5,000 acre airforce

base, and they are starving for jobs in their community. How are they going to get business to locate when prices are 20 cents a kilowatt hour. The fourth is the issue of safety and reliability, the integrity of the infrastructure. They don't trust that. Lastly, they just don't trust others making these decisions. These are all issues that I find that Mayors and Council members, Supervisors, and City Managers are grappling with right now. Their goal is to address the above issues and to control their own destiny.

Generally speaking in working with them, I am getting into the nitty-gritty of what options you have. There are four options that I have seen and worked with. One is serving customers through community aggregation as we have talked about. As you know, that's on hold right now for electric customers unless we can get sufficient support for AB 117 and get that passed. However, I have customers that are doing it right now for natural gas. You can aggregate natural gas. I have one city that is buying it in bulk and selling it to its commercial industrial customers, and it's a great attraction—also the governmental users. A second option is decentralized systems to serve site-specific areas, like industrial parks. Co-generation systems where there is some substantial capital outlay, but not necessarily connected with the grid. There is no reason why a system like that wouldn't work, and because you are dealing with quite an efficient system when you are talking co-generation when you would be selling steam, chilled water, and electricity to potential retail customers. This is a legitimate approach. One of the cities I am working with is planning such an approach, and we think they will achieve significant financial savings and not connect to the grid. A third is going under FERC Order 888, filing for an interconnection agreement building the necessary substation infrastructure to serve new load only. In this instance, you are not condemning existing wires, but you are saying we're going to take care of the new load and the new growth through an interconnection agreement which is under FERC order and FERC tariff. The last and the more significant approach is purchasing, condemning the IOU system, which I have at least one client considering that.

These are significant efforts. You can expect to have a good deal of opposition from the local investor-owned utility for any of these. I hear them say that they support aggregation, but I don't necessarily see that in their actions. I know that in instances where we've proposed either site specific options or serving new load or negotiating for a sale or condemning a system there have been strong opposition by the local investor-owned utility. I think the reason is obvious. When deregulation occurred, I believe that these companies thought that the future of their company lay in the deregulated part of their business. I think their attitudes have changed. I think they now believe that the future of their companies lay in the regulated side. In fact, right now they are cash cows and generating money hand over fist. With rates set as high as they are and wholesale prices as low as they are, the NCPA had a nice chart about how prices had dropped down. None of my client's retail customers have seen the decline in prices because prices are still at the high levels.

In terms of benefits and opportunities, when I get back to vertical integration controlling your supply and generation, stabilizing the prices, local control over environmental priorities, reliability, economic incentives, rates and rate setting as well as local control over your public purpose programs. In Anaheim, I had 7 million dollars of public benefit money that I did not have to send to Sacramento that we could make local decisions. We had more than 50 programs that were designed around the local community, everything from putting in off-peak lighting for security and economically disadvantaged areas to reduce crime. I'm not sure whether we reduced crime or chased it into other communities, but it seemed to work. To tree power programs, where we planted some 17,000 shade trees for energy efficiency to business incentive programs to make businesses more efficient. The ability to design programs around what your local community needs and wants is much better than letting somebody in Sacramento or across the street decide how it is going to be spent.

When I got a letter on what I was supposed to say, they said make sure you mention the risks and disadvantages. Power supply investment can be risky, obviously. It's not the type of business cities are in. However, these risks can be mitigated through diversifying and working on joint power agencies. On the Magnolia project for example, there are seven entities that are sharing the risk on that project. Secondly, being publicly run doesn't mean automatically that it will be run well. In fact, you must pay a lot of attention to the government structure. I was impressed by the discussion of setting up a Department of Power in the city. You must set that government structure up properly with public accountability, but with a professional staffing organization. Third, expect strong opposition to all of the suggested approaches. It can be a very time-consuming effort to go all the way through a condemnation process. You've heard talk about Sacramento taking twenty years to do it.

I will end up in my final note. I pulled a twenty-year old article from Public Power Magazine. I was going through some old papers, and I had written an article in the same magazine. This was a story about Macina in New York, which is a public power system. They took about eight or nine years to get through the legal process to take over the system to where they could realize the benefits. Prices were a lot lower than in surrounding areas. At the point this article was written, it was 1980. It was six years into the process. They didn't get a final result yet, so they are still fighting it. I want to read you a very short section on what was at stake here in New York state. An unnamed official quoted by the New York Times the day after the 1974 vote expressed the possible utility concern.

"If Macina goes, can Niagra Falls be far behind? If that happens, will Buffalo, Rochester, and Syracuse be far off. Six years later, the sentiment still seems to be the same. So much rests on Macina. With everyone looking on, why does

Macina feel so much alone? The town official says they are not getting much support from anyone because their town is so small and infanitismal in the political scene. No one seems willing to get their hands wet."

Macina went and as you can see, Niagra Falls, Buffalo, Rochester, and Syracuse didn't go because it was so hard to get this established. When SMUD went, Sacramento went after twenty years effort, who would want to go through that again? It's not an easy effort to go through and is something you have to give some careful thought weighing all of the options you have in terms of addressing this particular crisis. With that I will end my comments and open to any questions that you might have.

Mr. Smeloff stated Ms. Jackie Williams from South San Francisco asked a couple of questions. This relates to plans to build power plants at the San Francisco Airport. The question is:

"Does the 250 megawatt power plant for San Francisco Airport have the transmission lines to bring this power to San Francisco or will it go into the ISO grid for the highest bidder? It was my belief that any megawatts to San Francisco had to be connected north of the Martin substation. Is this true?"

There are two plants being proposed at the Airport. One would be owned by the San Francisco Public Utilities Commission. We're developing that in conjunction with the California Power Authority. They would finance it. We would enter into a long-term power purchase agreement. That power plant will be interconnected at the Airport into the 12KV system. It will back-feed to the Airport and deliver electricity to the Airport. It is designed to operate in what we call an "islanded configuration" so if there is a power disruption, the Airport can still maintain power. That's one power plant and it is specifically dedicated to serving Airport load. The other power plant is being developed by the California Power Authority with a private developer out near the United Airlines hangar. That is a peaking power plant that will only be there for grid reliability and will run only during hours of peak need to provide voltage support and grid reliability. It is not intended to be a plant that will deliver power into San Francisco.

The other question:

"SFO currently has a 50 megawatt co-generation plant at United Airlines for their needs, so why is there a 50 megawatt plant being financed by the Consumer Power Authority?"

There is a power plant that is owned by United. It's not 50 megawatts; it's 20 megawatts, and it's for United's own load. The plant that we're developing would be specifically dedicated to the Airport load.

Commissioner Hall asked Mr. Smeloff, do you have any approximate costs relating to the construction of those plants?

Mr. Smeloff stated I can give you a rough cost for the full all-in cost of the plant. This will be built and financed by the Power Authority. We will not finance it, but we will buy it. The all-in costs are probably around 45 million dollars. We will know specifically once they complete a competitive bidding process among developers what the price is.

Commissioner Hall asked but you are guessing around 45 million dollars?

Mr. Smeloff stated around 45 million dollars for a 57-megawatt plant, and it will include the interconnections to the Airport grid.

Commissioner Hall asked would that be standard average costs for a plant that size?

Mr. Smeloff stated costs are coming down because of the surplus of equipment that is available recently. So these are much better prices than what you would have seen last summer. Because of just labor and specific San Francisco costs, the costs are higher than what you would see in Southern California or the Central Valley.

Chairperson Gonzalez asked Mr. Aghjayan, related to the extent to which the private utilities characterize their responsibilities as energy-deliverers, who in their opinion became responsible for generation?

Mr. Aghjayan stated they don't know. Maybe they do know and maybe they would give you an answer to that, but I haven't heard it. The assumption behind deregulation was that it was going to be such a rush into the market that it was going to be like selling ping pong balls. There is always a supplier along that If the price goes up, somebody is going to get into the business. The problem is it takes years to build a power plant. These are not ping pong balls, and in my own personal opinion I think their focus was on protecting their shareholder in these negotiations. I also don't believe that they thought it was going to fall apart as quickly as it did.

Chairperson Gonzalez stated I would see how someone delivering energy would have an incentive in perhaps not bearing the responsibility for the generation component of it. But its curious to me that the laws that got us into this place also directed these deliverers to disinvest from generation. That seems to me significant because the legislators who did this bear a huge responsibility for not seeing the "crash" that that kind of public decision making was going to lead to. Am I missing something in the characterization?

Mr. Aghjayan stated without commenting on exactly what happened because I don't think anybody knows, I would say there certainly is a loose end there. What happens if the power plants don't get built, who is responsible? That question should have been asked a few more times during this process.

Chairperson Gonzalez asked what about the question of disinvesting of generation by those deliverers? What do you say to that?

Mr. Aghjayan stated they were required by law to sell half of their generation.

Chairperson Gonzalez asked why?

Mr. Aghjayan stated to get them out of a controlling, and I am not speaking from my personal viewpoint but from my perception of what was said at the time, was they wanted to get them away from a monopoly position on a power supply to allow more entrance into the market and hopefully, there would be fifty folks that wanted to generate power, not just the investor-owned utilities. One of the things that went wrong was that it ended up less than a half dozen companies being in that business that bought those plants. That was the negative. The other side of it is remember this, that some of these companies while at the very time were selling their generation in California were using their holding company funds to buy power plants in other parts of the country and take positions of that of a power supplier. All three major utilities in California are in that business right now.

Commissioner Hall stated if I recall, the intent of deregulation was to break up that monopoly as you just said and in reality it has resulted in something different.

Chairperson Gonzalez stated I think it is interesting that while the express motive may have been to increase competition in the generation of electricity. Of course it is easy with hindsight to see what was wrong, but it would seem to me that when you have a volatile market, and you are unsure of the availability of profits in the future, that that is not a huge incentive for people to go into these long term contracts or the process of creating generation in looking down the road. But the component that I think is interesting, and maybe this is what Supervisor Hall was thinking, the question of asking these deliverers to disinvest as a way to increase competition. I am wondering why isn't simply opening it up and letting anybody compete in the market or wouldn't have been sufficient to break down the monopoly?

Mr. Maynor stated one of the things that happened and we're in that process at the PUC, is that there was a belief that there was tremendous co-generation potential in California. There was a great deal of emphasis by the independent generators to just open up the market--we're ready to come in. As the speakers were saying, it takes a while for that to happen. It took a while for the program to

get started. Frankly, there were many people who testified from other places in the world that went through the direct access program that experienced the exact same thing that California went through. It's a complicated industry. That was one of the motivating forces was the sense that there was a lot of independent producers out there that were ready to come in if you could just get these folks out of the business so they would have a marketplace to sell.

Mr. Aghjayan stated it was also believed that in California there was a surplus of capacity back in the late 1990's. In fact, everybody believed there was a five to ten-year surplus in capacity. It disappeared very fast. The rush at that point was to get rid of the generation to not get stuck with that over-priced inefficient generation so that you would have that financial responsibility. Can you imagine the surprise when they went out to bid and found they were getting two to three times book value? Somebody else was betting on the opposite thing happening. While at one point, the investor-owned utilities obviously thought they have to get rid of this expensive generation, don't have it as a liability. Somebody in the market was saying it was going to go the other way and buying up generation.

Commissioner Hall stated exactly.

Commissioner Fellman stated there were a couple of other competing forces that occurred out of the AB 1890 legislation. One was that retail rates were frozen for all customers at a discount of 10 percent for everyone, so there wasn't that competitive advantage to go to alternative suppliers for your load. Those of us who did were mostly green customers and were willing to either get the discount or pay more. So there was a fixed price on the retail price that caused a problem and also FERC's (this is my personal opinion and I think others share this) market power analysis for monopoly power (and that's what Ed spoke about) was looking at a statewide monopoly impact from purchasers of these divested power plants.

So, if you bought, like Merant bought a significant number of megawatts in the Bay Area from PG&E, it's only maybe 6 percent of the statewide requirements, and yet in San Francisco, it's 90 percent. So, we had that kind of tension going back and forth plus PG&E kept Hunter's Point in the deal with the city to close it down as soon as reliable. So, there were a number of political factors and fixed policy factors that kept the prices at a particular level and didn't really send the price signals to the developers. Finally, I think this is something that as a Commission member I am excited about working with, is that we don't want to make decisions based on the short-term prices because those decisions were made in 1995 on short-term prices. Similar kinds of decisions were made in 2000 on short term prices, and we're living with the negative consequences of both those sets of decisions.

Mr. Aghjayan stated I agree with you. I also want to mention that 10 percent discount was financed through a 7 billion dollar bond issue of which we still have

at least 6 more years to pay on. I don't know where the 10 percent discount went to, but if you look at the back of your bill in the fine print, you will see something called a trust transfer account (at least it is in Edison's territory), and that's what you owe on that bond issue that finances that 10 percent decrease. We have 6 more years of that.

Commissioner Fellman stated and that 3 cents surcharge that was put in last March we're still going to continue to pay as IOU customers, at least Edison will. I bet we'll see that same thing ultimately for the PG&E bankruptcy solution.

3. Public Comment

Mr. Maynor stated we have one speaker card and now may be an appropriate time to hear from the audience.

Mr. Richard Knee stated I am a journalist. As such, I am extremely concerned about secrecy and the public's right to know. Aside from all of the practical aspects you have been discussing, I think that should be a part of the equation that is given considerable weight in this entire discussion. You and I, unless we own shares in PG&E, cannot attend a PG&E annual meeting or shareholder's meeting. You and I, unless we're on the PG&E board, may not attend a PG&E board meeting unless by invitation. With the public power agency, the public will have some accountability. With the public power agency, the public will be able to see and hear the decision-making process. The public will be able to have input into the decision-making process. That process involves decisions that affect the very quality of life and in some cases life itself.

Mr. Laurence Schekman of Berkeley, stated I wanted to call your attention to the little town of Kutztown, Pennsylvania where they have had public power generation and distribution for a long time. As a result of that, they now have instituted a high-speed internet system for every resident and every business. They have installed fiber-optics so they can give broad band computer service to everyone. Very, very cheap, somewhere between \$12 and \$18 a month. They are only able to do that because they have public power distribution and can piggy back fiber optics on top of that, use the same service. The same thing is happening across the Bay in Alameda where (I just called them this morning) for \$32 you can get broadband fiber-optics computer systems much faster than DSL. I added it up. If you wanted that with AOL, you would have to pay \$24 for AOL service plus \$31 for high-speed DSL, which in fact is not as fast.

The point is that if you opt for public power, you will also be able to provide the service of high-speed internet and cable television. In Pennsylvania, they have thrown in free long distance calls because when you have cable to every home, you can deliver free long distance in the same way that you can get long distance through the internet for no cost. It is an enormous advantage. I believe in San Francisco, that if you opt for providing cable as well as power generation, the

advantages to the public will be so obvious that it will be able to overcome the amount of money that the companies will spend against it. I hope that you will provide us with that service. I have leaflets here that I will give to people which provide some information from Pennsylvania--the web address and the phone number to City Hall.

Mr. Robert Van Buskirk, Economic Analyst, Lawrence Berkeley National Lab, stated I do energy efficiency policy. I came here today to present some rough economic numbers. I appreciate the comments from the speakers, but I think putting some dollar figures on some of the savings and benefits would be useful to help motivate this discussion. First of all, we should note that San Francisco pays about \$500 million dollars per year for electricity. The average residential rates in LAWP and SMUD compared to the investor-owned utilities are approximately 20 percent lower than the investor-owned utility rates. Commercial rates are about 10 percent lower. That means 50 to 100 million dollars per year for the City of San Francisco that succeeds in having a municipal utility.

Secondly, we talked about the cost of capital and the cost of borrowing. I looked up the cost of borrowing for PG&E which is in its filings. PG&E pays 6.8 percent interest compared to SMUD, which has a marginal cost of borrowing of 5.25 percent, which means that the interest rates for investments for a municipal utility would be approximately 30 percent less. They are very high amounts of debt and interest payments for utilities, so that would have a very large impact on the types of savings.

A very important issue which I think will help create the next financial crisis in the state sector is the huge stranded costs that PG&E still thinks its owed, which is many billions of dollars, and the huge stranded costs represented by the long-term contracts which are probably overpriced at least by a factor of 2. The contracts are valued at about 40 billion. That's about 20 billion dollars. San Francisco's share of that is about .6 billion dollars. The whole question of the degree to which San Francisco consumers can opt out of the exorbitant cost of the deregulation fiasco is a \$600 billion dollar question for San Francisco.

PG&E still thinks its owed \$7 billion dollars for the high electricity purchases. That means another half billion dollars for San Franciscans. So, the question of the degree to which San Francisco consumers will be liable for the cost of the deregulation fiasco is at least a \$1 billion dollar question. That is I believe about \$3,000 dollars for every San Francisco residential household. Currently, the only legal means of doing that is through conservation. So stranded costs are a charge on top of per kilowatt hour bills, then the less kilowatt hours you buy means the less stranded costs you wind up being liable for. A municipal utility may be able to emphasize conservation, local solar PB generation, and help individual San Francisco consumers opt out of that \$1 billion dollars in stranded costs that you may be liable for.

In addition, there was talk about buying the distribution system. San Francisco is currently paying approximately \$150 million dollars per year for the distribution system. You are renting it from PG&E. So, the question is, is it worth \$150 a year to rent, or do you get a benefit from being the owner? The operating costs for that distribution system if you use SMUD, which has a larger system as an example is only 30 million dollars. So of that \$150 million dollars per year that San Francisco is already paying for the distribution system, \$120 million is rent for the capital investment of PG&E and since the City borrowing costs would be 30 percent lower, that 30 percent lower would essentially represent 30 to 40 million dollars per year benefit. There is a significant benefit to condemning and obtaining the distribution system. I want to put some of those cost numbers in to help motivate this whole process and to provide a bit of prospective of how much benefit for each of the San Francisco households we might be talking about.

Chairperson Gonzalez asked Mr. Van Buskirk, the figure of 30 million that you came up with for SMUD in terms of their cost?

Mr. Van Buskirk stated that comes from their Annual Report. In their Annual Report, they have their annual operating costs coming out of the transmission and distribution. It's a line item. It's available on the web.

Chairperson Gonzalez asked Mr. Buskirk, could you repeat those figures because Mr. Smeloff is very familiar with SMUD, and I would like to hear his thoughts.

Mr. Van Buskirk stated the figures, I tried a rough calculation to get the operating costs versus the capital recovery costs for the distribution system of what it would be for San Francisco, so I looked up SMUD's Annual Report. It has a line item that says the annual operating costs for the distribution system is 30 million dollars per year. If you look at the rate structure, the rate structure in San Francisco says that approximately 30 percent of the rate goes to distribution. Thirty percent of the 500 million per year that San Francisco spends is approximately 150 million per year. The SMUD distribution system is bigger than the San Francisco distribution system, so San Francisco should be able to have operating costs of 30 million per year. That means the capital recovery costs for San Francisco distribution system that you are currently paying to PG&E is about 120 million per year. That is the rent that I propose that San Francisco is currently paying for its distribution system, and that could be decreased through lower cost on financing that you may have available through a MUD. Does that calculation seem more or less correct?

Mr. Smeloff stated what seems to be missing from that calculation is what the capital costs, the carrying costs are for SMUD's distribution system. You extracted the O&M costs for the distribution system, but I'm not sure because I haven't seen the numbers whether you actually included the capital costs.

Mr. Van Buskirk stated so what I was using the operating costs for SMUD for was to come up with a rough estimate of what the operating costs for the distribution system in San Francisco might be. The SMUD system delivers about twice as much electricity as San Francisco. So, San Francisco's operating costs should be about 30 million. We know from the rates that San Francisco is paying PG&E about 150 million a year for the distribution. So, therefore, the effective capital carrying costs that PG&E is charging San Francisco would be at least 150 million minus 30 million, which would be 120 million.

Chairperson Gonzalez stated what I hear Mr. Smeloff saying is that 30 million dollar line item, he'd want to know more about whether or not it includes the capital costs.

Mr. Van Buskirk stated that 30 million line item does not include the capital costs from my reading of the Annual Report of SMUD.

Mr. Smeloff stated 120 million dollar carrying costs for the distribution system in San Francisco seems extraordinarily high to me.

Mr. Van Buskirk stated that is what is coming out of the rates. I think that is a measure of the types of benefits that San Francisco would obtain from condemning and acquiring the distribution system. By being able to lower those capital carrying costs, you would have the capability of lowering rates for San Francisco consumers. Because that money sent to the parent company had to come from somewhere, and it comes from things like overcharging on the carrying costs of the capital assets of PG&E.

Mr. Maynor stated I might add if this is an area of interest to the Commission, this might be one of the subjects we could come back with in a future informational hearing on with more detailed information.

Chairperson Gonzalez stated I think that would be a good idea.

Ms. Jackie Williams lives in South San Francisco, stated I am deeply concerned with the fact that there are two 50-megawatt plants going in at the South San Francisco Airport. I only found out about it today that there is now two. My understanding is that we were back to one. So I am wondering where the public information is, how I get hold of information when things change? The other thing I would like you to be aware of is that I've been going to hearings on AB 917, Judge Gottstein's court with regard to transmission lines. The CPC end on the Jefferson Martin line is about to come out, which is a 230 KV line that goes from the Jefferson Substation in San Bruno to the San Martin. Is that correct?

Mr. Smeloff stated near Redwood City to Martin, the Martin Substation at the Cow Palace.

Ms. Jackie Williams stated it ends up at the San Martin station. ISO has informed the California for Better Environment that if there is two 230 KV transmission lines, we wouldn't need power plants. Even Hunter's Point could be closed down. I would like everybody to be aware of that because I don't know about how information gets around. There is a letter on file that says if you have 230 KV lines, and I don't know if that's possible or what's involved or how long it takes, my understanding is that at one time is that it takes eight to ten years to put in 230 KV lines and get all the approvals. But, now its on fast track because I just got some papers from Judge Gottstein's court that says its coming up to be put on the agenda, and it has been considered a need because for transmission lines, you have to show a need. But when it comes to power plants, you can put as many as you want in. Like the Airport, they only need 50 megawatts right now to operate the Airport. My understanding is that they have that capacity there so when everybody is talking about putting in two 50-megawatt power plants, that's purely for profit. Because none of those megawatts are going to come to San Francisco because you have to have a transmission line that goes north of the San Mateo station to bring most of the energy, which is my understanding into San Francisco.

My question to you is what is this megawatt at the Airport going to be used for? The Airport right now doesn't need it. These are the two lots. Are we just going to put it into the General Fund? I'm really concerned because peaker plants are very dirty as we all know. They are the worst that can be put in. It was brought to my attention that at one meeting I went to on the Potrero Plant recently that they don't want to just operate them for short term, they want to extend the time they use these peaker plants. Whereas, they used to have a certain number of hours they could run peaker plants, they want to extend the time on these peaker plants. I don't know how I find out what's going on because pollution is supposed to be a problem in South San Francisco. They've just paid out 150 thousand so the air quality could get passed. Along with a lot of other cities in the region, they've all put in some money to get the Clean Air Act passed. So if they've done that, why are we putting in peaker plants, which is the worst that we could possibly do?

Mr. Smeloff asked, first question you asked, how do you find out about this? One, the peaker plant will be owned by the State of California, by the California Power Authority. It's not operating the plant for profit. It's building the plant for reliability. You should go to the California Power Authority web site for information about that plant since it is going to be owned by the state. There are power needs in the mid-peninsula. There is not a power plant. There's that little co-gen plant at United Airlines. There is not another power plant to get down to Moss Landing. So you have needs to serve the mid-Peninsula as well. It is the one area where you could have problems if there is a lot of demand. I think having a peaker plant in that location is not for San Francisco, it is for grid support in the mid-Peninsula.

Second question you asked was about the transmission line. Indeed, there is a proposal by PG&E to build a transmission line that is very much needed, and we are very strongly in support of that from Jefferson to Martin. They are only proposing to build one line that has been approved by the ISO, and they have to go to the CPUC to get their Certificate of Participation and Convenience. PG&E all of a sudden has been aggressive in promoting this line. They were in kind of a slow period for years, but now they seem to be moving pretty quickly to get that line licensed.

Mr. Williams stated she went to Judge Gottstein's court and I asked for the Jefferson Martin. I also went to the CAL ISO and the stakeholder's meeting and a lot of people seemed to have interest, especially PG&E at that meeting that they wanted to get on with it. It seems now they are getting on with it. But, you're saying only one line?

Mr. Smeloff stated they are only planning to build one. It is very much needed. It will help us shut down Hunter's Point and generate less electricity in San Francisco.

Public Comment Closed.

4. Adjournment

Donald L. Maynor, Esquire thanked the panelists for participating.

Chairperson Gonzalez stated on behalf of the Commission want to thank all of the panel. I speak for myself when I say this, having been a legislator a little bit more than a year, we are called upon to get into so many subject areas. Sometimes it's very difficult obviously without the aid of experts in the field who are willing to come forward and speak to folks who are at so many different levels of competency on issues. Certainly, it's been a very fruitful discussion this afternoon, and I really want to thank all of you.

Vice-Chairperson McGoldrick stated I want to second the comments of our Chairperson, Commissioner Gonzalez. You don't know how appreciate we are. This really fills in a lot of blanks for us and helps us be able to be ready for decision making. It's really based upon facts.

Commissioner Hall stated, thank you very much and echoing the comments of my colleagues. I think it's so important that we know as much as we can before we embark upon any policy. We certainly do not want to repeat the mistakes of the past where we think deregulation is going to lead to a less monopoly, etc. etc. I think that's what we are going to be faced with in the future. Just knowing which way to go is going to be critical upon having as much knowledge as we can get about what took place in the past, and how it relates to the goals that we want to set

for the future. I think this is just the start of many informative sessions before we reach any direct path. Again, I want to thank Gloria for her work in setting this up.

Chairperson Gonzalez stated in the future hearings if possible, we should try to see if we could have Mr. Smeloff available. He brings with him quite a bit of understanding of what is happening on the local scene and is able to answer questions that I think the Commission wouldn't be able to answer. I think what we found a little bit in the earlier part of the hearings this morning was by some of the speakers, perhaps not enough of a familiarity with what San Francisco is doing, and I understand that we invited them because they understand what they were doing in their own communities. I think Mr. Smeloff would be very useful for that if we could get his support.

Gloria L. Young, Executive Officer stated the next steps would be that we will be contacting your individual offices to poll you for future dates. We will also be contacting speakers that we intend to have at future sessions just to keep the public informed, and we will be posting the notices as we get those meetings scheduled.

(All presentations and information distributed at the Commission Hearing are available at the Clerk of the Board's Office, Room 244, City Hall.)

The meeting of the San Francisco Local Agency Formation Commission adjourned at 3:31 p.m.

San Francisco Local Agency Formation Commission

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AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

**Special Meeting
Friday, March 1, 2002 at 2:00 p.m.
City Hall, Room 263**

Chair: Commissioner Gonzalez

Members: Commissioners Ammiano, Schmeltzer, Hall, and McGoldrick

Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call
2. Approval of Minutes of the Commission Meeting of February 7, 2002. Action Item.
3. Discussion of the San Francisco Local Agency Formation Commission (SF LAFCo) Budget prior to hearings, including use of outside legal counsel, and scheduling public hearings for the adoption of the Fiscal Year 2002-2003 Budget.
4. Future Agenda Items
5. Public Comment on Items not on the Agenda
6. Adjournment

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IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee Clerk of LAFCo, San Francisco Board of Supervisors, 1, Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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San Francisco Local Agency Formation Commission

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MINUTES

Special Meeting
Friday, March 1, 2002, 2:00 p.m.
City Hall, Room 263

Chair: Commissioner Gonzalez

Vice Chair: Commissioner McGoldrick

Members: Commissioners Ammiano, Hall, and Schmeltzer

Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chair Gonzalez at 2:10 p.m.

Members Present: Chair Gonzalez, Commissioners Ammiano, Hall, Schmeltzer, and Fellman

Member Absent: Vice Chair McGoldrick

2. Approval of Minutes of the Commission Meeting of February 7, 2002. Action Item.

Commissioner Ammiano moved to approve the minutes; Commissioner Hall seconded.

Commissioner Fellman stated that on the second page, sixth line of the Minutes, "Energy Energy Inc." should read as "NRG Energy Inc." and "Dynergy" should read as "Dynegy."

Minutes approved as amended. No objection.

Public Comment

No Public Comment

3. Discussion of the San Francisco Local Agency Formation Commission (SF LAFCo) Budget prior to hearings, including use of outside legal counsel and scheduling public hearings for the adoption of the Fiscal Year 2002-2003 Budget.

Gloria L. Young, Executive Officer stated that Commissioner Hall requested discussion of this agenda item. The staff report indicates that there is currently \$364,444 on reserve. Unless directed by the Commission to formally advertise and hold a public hearing for the purpose of reviewing the budget, the remaining amount of the money in reserve and the \$97,000 that we currently have on the books will be what is available to SF LAFCo for Fiscal Year 2002-2003. Expenses include (1) annual dues to the California Local Agency Formation Commission (CALAFCo) in the amount of \$2,070; and (2) a consideration of release of reserves for contracting with the energy consultants. In addition, we have enough funds in the \$97,000 to carry the committee clerk and legal counsel to the end of this fiscal year. We have used some of the services of the Clerk of the Board's staff to support the LAFCo function. As an example, IT staff was used at the February 22 public meeting. There is a line item for services provided by other departments; however, those funds are part of the funds that are on reserve.

Commissioner Hall stated that the \$364,000 plus \$97,000 is \$461,000. He asked for the period of time that the \$364,000 in reserve had been accumulating.

Gloria L. Young stated that the \$364,000 had been accumulating since the SF LAFCo was established in 2000 when it started with a budget of \$754,000. The Board put \$450,000 of that amount in reserve and released about \$254,000, which is the ongoing budget that we've used. The Finance Committee then recommended release of \$100,000 in order to pay outside legal counsel.

Commissioner Hall asked how often the funds are replenished.

Gloria L. Young stated that the first budget process hearing for the LAFCo budget was put in place in 2000, as required by the Cortese-Knox-Hertzberg bill. However, the Controller's Office had set the budget up in the beginning as a project fund, which meant that it would be expended until there were no other funds left. The Board of Supervisors, as a part of the budget process last year, did not increase the LAFCo budget so we have been existing with a budget that has been in place for the past two years.

Commissioner Hall stated that if LAFCo were to continue, it would be up before the Board again and asked how the amount would be determined.

Gloria L. Young stated that the LAFCo Commission would be required to hold a public hearing under its laws in order to review and increase the budget. Legal counsel can talk about the laws regarding a baseline budget. The process required two public hearings prior to forwarding the request to the Board of Supervisors.

Commissioner Hall asked what was spent the last fiscal year on attorney fees.

Gloria L. Young stated that \$154,000 was spent in the last fiscal year for the City Attorney's Office. In the fall of last year, the City Attorney's Office chose to not continue to represent LAFCo, and we were required to seek legal counsel. She hired three firms, Don Maynor, Fred Yanney, and Nancy Miller. The two attorneys who have been supporting LAFCo for the most part have been Don Maynor and Nancy Miller. At this point, we have paid out approximately \$52,000 for both firms for approximately six months. We have tried to keep the costs down by having the attorneys attend meetings only when they are necessary to be here. She has used Nancy Miller when there are areas that relate to LAFCo law and Don Maynor when there are areas that relate to public power.

Commissioner Hall asked if having the attorneys on call works out cheaper than the City Attorney's Office.

Gloria L. Young stated that so far it has. Future costs would depend on LAFCo's direction and how much activity LAFCo enters into.

Commissioner Hall stated that the goal is to be as efficient with our resources as possible. Since the other Commissioners have been on the LAFCo longer, they might have a better idea on how to accomplish that.

Commissioner Ammiano stated that the Commission started the public hearings under the current counsel, and that it would make sense to keep the continuity for the remainder of at least two more public hearings. He asked the Executive Officer to supply the Commissioners with a comparison. The decision on who to retain for legal counsel should not be based only on financial comparisons.

Commissioner Hall asked for a comparison of hourly costs charged by the city attorney versus outside counsel.

Commissioner Ammiano indicated that another consideration should be whether the City Attorney's Office would be interested in representing LAFCo again.

Gloria L. Young stated that she could provide the Commission with city attorney costs from last year, which is a cost per attorney per hour. The cost is significantly less than outside attorneys; however, there were a number of attorneys that were used. The total amount of \$154,000 is what was paid to the City Attorney's Office, and they are not sure that was full accounting for their costs.

Commissioner Hall asked if there is anything that would preclude the Commission from contracting with the City Attorney's Office or different attorneys that may be a specialist in a certain field or if the Commission were to change its scope and go in a different direction. He agreed that the present attorneys should continue throughout this set of hearings.

Gloria L. Young stated that a contract provision would allow us to terminate the contract with legal counsel. She stated that we have enough funds to last through the end of this fiscal year. If we were to contract out differently after this fiscal year, we wouldn't have the funds if we request or use the reserve for energy consultants, etc. She would also defer to Nancy Miller about the budget process. It is her understanding that LAFCo has a window of time to adjust its budget and to make recommendations. She believes that period has to end by the end of June.

Chair Gonzalez concurs with the need for continuity. He shares Commissioner Ammiano's thoughts that the inquiry of what attorney we hang on to should not be solely a financial question.

Commissioner Hall stated that he just wants the flexibility of the specialty that each attorney brings.

Chair Gonzalez stated that there would be a couple of issues that would impact the ability to compare costs. One is the number and length of meetings. In all likelihood, our legal fees should be higher this year than last year if we continue to engage in these long public hearings. The second point is that the Board of Supervisors has a number of different members who have different perspectives on how to pursue public power. All of those members of the Board are relying on the various attorneys in the City Attorney's Office Energy Team to work on individual items. He thinks the LAFCo may have an advantage if it continues with counsel that is not associated with those individual requests. If it gets to a threshold that the cost is too high or we are not getting the appropriate expertise, then a change would be recommended.

Commissioner Hall stated that his inquiry is not related to the quality of service provided to LAFCo by legal counsel. He is new to the Commission and just wants to know where the money is going for attorney expenses and knowing what his options are. He has seen that the perspective that this legal counsel has brought is quite a bit different than the City Attorney's Office, and he can appreciate that it is certainly worth the money that is being paid.

Chair Gonzalez asked if changing the budget requires a public hearing.

Gloria L. Young stated that the requirements under the Cortese-Knox-Hertzberg bill requires a 21-day notice to the public for both the first and second budget hearings.

Public Comment

No Public Comment

4. Future Agenda Items

Chair Gonzalez asked Donald Maynor, Esquire, if he knew when the next public hearings might take place.

Donald Maynor, Esquire stated that he put together a summary of the February 22, 2002 hearing entitled "Highlights of Public Power Public Hearing (February 22, 2002)." Copies were distributed to the Commission. Three energy-related options were discussed at the hearing 1) energy-related activities for non-municipal utilities; 2) aggregation; and 3) Municipal Utility or Municipal Utility District. The LAFCo was primarily looking at the municipal utility district option. One of the issues that came out of the public power hearing are the options for a city that does not want to become a municipal utility district. You heard from the City of San Jose. San Diego is another city that is quite active in areas of energy programs that encourage economic development and conservation. The Commission may have an interest in scheduling future public hearings that discuss issues outside of the LAFCo context and in hearing from other cities or more state agencies as to what kind of programs are available.

Chair Gonzalez stated that various options were clearly expressed at the public hearing, but he would be interested in more specifics on certain issues. If we do have a power authority as opposed to a municipal utility district, what does it look like, how many members is it comprised of, can their decisions be vetoed by the City Council, do they have revenue bond capacity, does that have to be approved, can the Mayor veto, etc. He would be particularly interested in specific instances in which the process worked and didn't work. With the measures that went to the ballot, there was a lot of discussion about the bond capacity, the makeup, and if the members should be elected from the districts at large.

Donald Maynor, Esquire stated that his summary includes possible issues for future informational hearings. One of the issues noted are the steps necessary for San Francisco to form a municipal utility/municipal utility district that include implementation issues. We could bring people in for further discussions at a future hearing. The second item was the aggregation issue. Ed Smeloff pointed out that San Francisco has unusual problems with transmission constraints, and it was discussed that generation is owned by one owner. A.B. 117, which was provided to the Commission, is a pending bill that deals with aggregation. Since direct access may not work, this concept now has renewed interest and may be a viable alternative to direct access for cities like San Francisco to consider. If San Francisco wanted to pursue aggregation, it would not have to form a municipal utility or utility district. The City, outside LAFCo, might want to get actively involved in monitoring and making sure that this bill will work. If you want to include that in the LAFCo process, that is something to talk about as well.

Commissioner Ammiano stated that before the new Board was seated, he was the one who introduced the aggregation issue, and they were finally successful in getting Assemblywoman Migden to sponsor it.

Commissioner Hall stated that when they put through that Resolution encouraging the Board to establish a public power decision, it was based on aggregation. He feels it is one good alternative that could be looked at to help create public power services.

Donald Maynor, Esquire stated that Ed Smeloff spoke at the February 22 meeting about the practical implications about having a utility in San Francisco, including transmission limitations. This is important if the City were an aggregator. The Commission might want to gather more information about transmission limitations and some of the other issues Mr. Smeloff raised so it would be better informed as to what needs to be done to the bill (if anything), what the opportunity is, and how it would work for San Francisco. He had a conversation with PG&E's lawyer who gave a positive response about appearing at the next public power hearing. He asked how PG&E feels about aggregation, and the PG&E lawyer stated that by and large, PG&E would support it with some reservations about some language.

Commissioner Hall stated that he would like to get the attorney from PG&E here and ask them definite questions as to how they see aggregation working in concert or in conflict with them. He has definite ideas and had tried to express them in their elongated debates on public power. They received a unanimous vote to look at a public power division, especially aggregation.

Donald Maynor, Esquire stated that was the purpose of the next hearing. PG&E stated they were reluctant to appear because they felt it would be an abusive process for them. He sent the PG&E attorney a list of issues that LAFCo would focus on. The attorney was comfortable with the list of issues.

Commissioner Fellman asked what group from PG&E would be speaking to the Commission at the informational hearing. Are we getting San Francisco representatives or someone from the corporate or policy level as well? She thinks we should have both levels because the decisions are going to be made at both levels.

Donald Maynor, Esquire stated that he spoke with Jack Fallin, who is the senior lawyer assigned to this issue. He is seeking PG&E people to bring in to the meeting who are knowledgeable on these various issues. Mr. Maynor is not sure whether you are going to get the policy or technical people here for the meeting. He thinks the issues are going to decide who would be brought in.

Commissioner Schmeltzer asked if PG&E expects that the informational hearing would be limited to these issues.

Donald Maynor, Esquire stated that the Commission could add questions to the list. The intent was to give PG&E a sense of where the Commission is going. One of the issues that he wanted PG&E to comment on is the bankruptcy proceeding. The lawyer expressed concern because they are in litigation in the bankruptcy proceeding. There may be some areas that PG&E may want to put a limitation on, but they are willing to address a number of these issues. If there are additional issues you would like PG&E to address, you can give them to Ms. Young, she will give them to him, and he will forward them to PG&E.

Chair Gonzalez stated that he feels PG&E would want to participate, particularly if they are of the opinion that they are providing a service, and that they think that any effort at municipalizing in San Francisco isn't going to benefit the rate payer or government.

Donald Maynor, Esquire stated that PG&E's earlier complaint was regarding fairness. Now, we have put together a process that insures fairness and that invites them in. For them not to accept the opportunity would not look good for PG&E. He expects a positive response from PG&E.

Chair Gonzalez stated that in addition to the commissioners, legal counsel, and the executive officer being present, we might want to consider re-inviting Mr. Smeloff to join us and re-inviting anyone who participated in the original hearings who might be helpful to us. He suspects there is going to be a lot of information that is going to be given out by PG&E and at that time they put out the information, that we understand the parameters of what they are saying as it will be widely watched.

Donald Maynor, Esquire stated that if PG&E senses that they are going to be subject to cross examination, they would be less inclined to share much. In this type of hearing, he would like to get the information flowing. The Commission and its consultants will have opportunities later to look at the information that comes out of PG&E and be able to analyze them to see if there are problems. You can always ask for additional responses back from PG&E in areas where there are exaggerations or incorrect statements.

Commissioner Hall stated that he thinks the Commission is being advised correctly. He sensed last year that PG&E's frustration was that they were not given an opportunity to fully express what they could bring to the issue. That is the way he would like to see them brought in, rather than have people who might cross-examine them and close off that process. He would not want to create an atmosphere where they would withhold information because there is a lot that they can give us in the Commission's attempt to evaluate whether public power and in what form will work in San Francisco. Ideally, everybody would come together and play a part. He does not know whether they will go in that direction until he hears from them and see what they can offer in answering some specific questions. Are they in the generation business, are they not, where are they? How does it help our

situation here? He would encourage a situation where they can talk freely and on friendly terms.

Donald Maynor, Esquire stated there may not be answers for some of these questions. We know there is a lot going on in the industry right now at the PUC and the state level. It is very easy to say "I don't know" as the answer. He would rather have PG&E in a more comfortable frame of mind where they are volunteering information as opposed to the feeling that they have to be defensive.

Commissioner Fellman stated that she had not been involved in the Supervisor's discussion and feels that it is important to bring PG&E in on an information-gathering basis. She asked whether it would be useful to have the informational hearing after the consultants are selected in order for them to get the input into the informational hearings. She feels the list of questions is a good start, but we want to make sure we are getting the right information out to the public in these informational hearings. She feels it would be helpful to focus on the kinds of questions we are asking so PG&E and PUC feels comfortable answering the questions, plus it would feed into the consultant's evaluation process.

Donald Maynor, Esquire stated that we were talking about having a morning and afternoon session, one session with PG&E and the other with PUC in order to get some perspective from the regulatory body on these issues. Two and a half hours is not a lot of time for PG&E to talk about any of these issues. If you get into too much detail, one of those issues can take up two and a half hours. It may be that you want to get as much information as possible to cover the range of issues. That is why when you asked him how many hearings, he said at least two more. You could have follow-up meetings and then have meetings on focused issues. If transmission, for example, is a concern, you can bring in an ISO representative, PG&E, and somebody from the state for answers.

Commissioner Hall agreed and stated that the important thing is to see what they have to offer, and that we could call for specific hearings later to bring in the people we want. The important thing is how they can help us understand this complicated issue and then follow-up.

Commissioner Gonzalez stated that if we get the consultant in the future to look at the issue here in San Francisco, they would be able to look at any transcript and see the hearings themselves and hear what the testimony was.

Donald Maynor, Esquire stated that some of the panelists from the February 22 public hearing were not paid to be there.

Gloria L. Young stated that we were fortunate to have the panelists that were willing to be here. In some cases, the panelists paid their own hotel and airfare costs. If we want to invite anyone back, we would have to pay the incremental costs for airfare and hotel.

Donald Maynor, Esquire asked the Commissioners to look at those possible issues such as aggregation and generation options for future possible hearings. In discussing problems with transmission and market power, you may be interested in distributed generation in San Francisco. It is very easy to get people who are knowledgeable in those areas to come in and talk about it. Resource planning and energy forecasting is something you would do as an aggregator. If you get more interested in what that really entails, we can bring people in to talk about that. Financing was an issue of interest and we have some people available to talk about those issues. One of the issues that was mentioned is the implementation and practical considerations. The Commission may have other areas they want to add on.

Mr. Maynor stated that March 22 is a tentative date for the next public hearing and is waiting for PG&E to confirm. PG&E did not want to be in the same room at the same time as the PUC, so he decided to split it up in morning and afternoon sessions. It might be useful to have the regulator of PG&E, who is concerned about ratepayer costs, and PG&E for one hearing. An invitation has not yet been extended to PUC yet. He asked if the Commission would like to have both PG&E and PUC attend one hearing.

Commissioner Schmeltzer stated she was not available on March 22.

Donald Maynor, Esquire stated that April 12 would be the next possible date.

Gloria L. Young stated that when the Committee Clerk polled the Commissioners, there was a quorum for March 22. There are other dates such as March 29, April 12, and April 26 for the Commission to respond to. It is up to you as to the date you would like to have the hearings and then we could let the speakers know.

Commissioner Ammiano stated he could not attend on March 29.

Gloria L. Young stated that we are having video tapes made of the public hearing that each Commissioner and Board of Supervisors member will be receiving. If any of the Commission members are not present, they would be able to review their tape of the meeting.

Chair Gonzalez asked if we were aware that Commissioner Schmeltzer could not attend on March 22, but since we otherwise had a quorum, March 22 was being considered.

Gloria L. Young stated that was correct.

Chair Gonzalez asked whether the Commission wanted to wait that long to hold a public hearing. He would like to continue having the public hearings and agreed that there are times that the Commissioners may or may not be present because of

their various schedules. He is inclined to not wait an entire month before holding the next public hearing.

Commissioner Ammiano asked about March 15.

Gloria L. Young stated that she and legal counsel would be interviewing the energy consultants on March 15, but that the interviews could be rescheduled.

Commissioner Ammiano stated that process should not be interrupted.

Chair Gonzalez stated that he is okay with three weeks between hearings, but that four or five weeks is too much. If PG&E could not attend on March 22, we should take advantage of that date to take up other questions such as aggregation or financing. Although we have a schedule for three public hearings, in all likelihood we are headed for something like five public hearings.

Donald Maynor, Esquire stated that the Commission may want to have a public hearing at the end to have people come in and comment.

Chair Gonzalez stated that the public hearing dates should accommodate the public member schedules as they are more versed on the subject than the Supervisor members.

Commissioner Schmeltzer stated that she was not available on March 22, but may be there for part of the afternoon.

Donald Maynor, Esquire asked if it is okay to schedule the hearing for March 22.

Chair Gonzalez stated it was okay for March 22, but to keep the public member schedules in mind for the future. On the occasion when PG&E comes in, we should make sure that Commissioner Hall should be present as he has been the most vocal in wanting to see them express their position.

Donald Maynor, Esquire stated that we had a good response from the consultants in doing the studies. Some of them have good expertise in particular areas. Some of them are already under contract with the City. One consultant has been paid money to learn about San Francisco's transmission issues. He discussed the possibility of contracting with several consultants so that there is more than one resource in particular areas of specialty.

Commissioner Fellman asked how the LAFCo process would be coordinated with the San Francisco PUC efforts. She understands the SF PUC is doing their own Energy Plan. There seems to have been confusion on the ballot in November with the two processes. She is interested in seeing a statement of how efforts would be coordinated in order to eliminate confusion.

Commissioner Ammiano stated that the Energy Plan is something that was requested by Supervisor Maxwell which is that every department develop an Energy Plan. That is a little different than PG&E power. There are illuminations and what is going to happen in November. His office will meet with Mr. Smeloff on the implementation of the solar bonds and the correct way of procuring those. He would be happy along with Mr. Smeloff to give the Commission a status report possibly in a month or two.

Chair Gonzalez stated that he does not feel it is necessary for the Commission to direct Mr. Maynor on issues for future hearings, and that he is accurate in identifying issues that the Commission would want to get more information on.

Donald Maynor, Esquire stated that the Commission is not limited to the public hearing process to gather information. Also, future hearings would progress from general to more specific information.

Public Comment

No Public Comment

5. Public Comment on Items not on the Agenda

No Public Comment

6. Adjournment

The meeting of the San Francisco Local Agency Formation Commission adjourned at 3:14 p.m.

San Francisco Local Agency Formation Commission

City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102-4689
Tel. 415.554.7702
Fax. 415.554.5163

AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

Special Meeting Friday, March 22, 2002 at 9:30 a.m. City Hall, Board of Supervisors Chambers, Room 250

Chair: Commissioner Gonzalez; Vice Chair: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall, and Schmeltzer
Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call
2. San Francisco Local Agency Formation Commission (SFLAFCo) Public Hearing on Distributed Generation, Renewable Resources, and Conservation/Energy Efficiency.

Panel 9:30 – 1:00 p.m.

- Donald Schultz, Division of Ratepayer Advocates, California Public Utilities Commission
- Elizabeth T. Lowe, Vice-President, Northern California, Onsite Energy
- Richard Ferguson, Director of Research, Center for Energy Efficiency and Renewable Technologies (CEERT); Energy Chair, Sierra Club, California.

3. Public Comment
4. Adjournment

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NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee Clerk of LAFCo, San Francisco Board of Supervisors, 1, Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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San Francisco Local Agency Formation Commission

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MINUTES

Special Meeting
Friday, March 22, 2002, 9:30 a.m.
City Hall, Board of Supervisors Chambers, Room 250

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall, and Schmeltzer
Alternates: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chairperson Gonzalez at 9:37 a.m.

Members Present: Chairperson Gonzalez, Vice-Chairperson McGoldrick, Commissioner Ammiano, Commissioner Hall and Commissioner Fellman

Member Absent: Commissioner Schmeltzer

Legal Counsel Present: Donald Maynor, Esquire and Nancy Miller, Esquire

2. San Francisco Local Agency Formation Commission (SFLAFCo) Public Hearing on Distributed Generation, Renewable Resources, and Conservation/Energy Efficiency.

Donald Maynor, Esquire stated this morning we're happy to have some speakers on the subject of distributed generation, energy efficiency, and renewable resources. Some of the panelists are coming from Sacramento, and I understand there is a lot of traffic coming over the bridge, so we will rearrange the speakers. One of the reasons we wanted to focus on this particular area is because as we've learned, San Francisco has difficulty importing in electricity because of transmission constraints.

It would make sense to closely investigate reducing energy usage through energy efficiency and conservation and at the same time looking at having generation within the City and including the idea of distributed generation, which the idea is that the end user actually has the generation on site. In that sense, it's not necessary to use transmission systems and perhaps even distribution systems. It is a topic of great interest around the state. In fact, the California Public Utilities Commission (CPUC) has an ongoing proceeding on how to further certain elements of distributed generation. This morning we are going to hear from a number of speakers on the subject. One will be from the industry that provides energy efficiency and distributed generation. Another person, Don Schultz, from the PUC will talk about the regulatory aspect of it.

This morning we have Rich Ferguson who is with the Center for Energy Efficiency and Renewable Technologies, most commonly known as CEERT. He has a great deal of background in renewable resources and energy efficiency. Dr. Ferguson received his degree in Solid State Physics from Washington University in St. Louis, Missouri in 1967 and has long been involved in energy policy issues. He has taught Physics at UCLA and Cal Poly in San Luis Obispo. Currently, he is the Research Director at CEERT at its headquarters in Sacramento. He is a volunteer leader in the Sierra Club, and he now serves as Chairman of the club's California Energy Committee. In addition, he is a member of the California Power Exchange Board of Governors representing public interest groups. At CEERT, Dr. Ferguson administered the California Regulatory Research Project to analyze potential impacts of electric industry restructuring proposals on public policy goals related to energy efficiency and renewable technologies. He has served on both the energy efficiency and renewables working groups as part of the California Public Utilities Commission's restructuring process, and he was involved in negotiations leading to California's restructuring legislation passed in September of 1996. You don't want to blame Dr. Ferguson for the results of those activities. Dr. Ferguson frequently testifies before legislative committees and state agencies on a wide range of energy policy issues.

Before Dr. Ferguson begins, I have asked that two articles be handed out that might be of interest. One entitled "Small and Clean is Beautiful: Exploring the Emissions of Distributed Generation and Pollution Prevention Policies" involves a good discussion of distributed generation. It has good definitions and gives you examples of what they're talking about. The other one entitled "Breaking the Consumption Habit: Ratemaking for Efficient Resource Decisions" by Sheryl Carter of the National Resources Defense Council involves rate making considerations. She was invited to participate as well and couldn't attend, but she thought you would be interested in reading these articles.

Panel 9:30 – 1:00 p.m.

Dr. Richard Ferguson, Director of Research, Center for Energy Efficiency and Renewable Technologies (CEERT); Energy Chair, Sierra Club, California stated

I am affiliated with a number of organizations. What I want to say this morning should not be attributed to any of them. It's a basis of my own analysis.

We'll start with the second slide—What problems are we trying to solve? I think it's important before you begin, to clearly understand what problem it is you are trying to solve. There are three general ones. One is reliability of service. You don't want the lights to go out. You are also worried about cost and price stability and environment is also an issue that needs to be addressed. Unfortunately, in this debate, people jump around from one issue to the other issue. In fact, that was a large part of the problem last year was that one week we were worried about the lights going out. The next week we were worried about what it was going to cost to keep them on. Unfortunately, we lost focus.

Next slide—Problem=Reliability. The reliability problem is three-fold. One is you have growing electric loads, and there is not enough generation to meet those loads and or not enough transmission.

Next slide—Problem=the cost and price stability issue. One is the issue of market power that can be wielded by generators. When the system gets tight and supply is on the margin, whoever controls that supply is obviously in a very strong position. The other thing that you should think about is the fact that our state and certainly this city is heavily dependent on natural gas, and we're very concerned what is going to happen about natural gas prices in the future. I am not going to talk too much about that today, but I submit that is worthy of your consideration. The fact is that the total supply in North America including Canada, Mexico, and the United States is only marginally sufficient for existing demand. BOA projects that demand for natural gas is going to increase 50 percent in the next two decades, and in fact we're going to have to start importing liquified natural gas. In the meantime the price is liable to go crazy. That is something I submit should be on your agenda, but I am not going to talk more about it today.

Next slide—Problem=Environment. Environmental issues, primarily to focus on air pollution first, both local and regional. I see my neighbors in Sacramento and San Joaquin Valleys are already nipping at your heels about all the nasty pollution that you generate and blows over in their turf. That certainly is an issue. Climate change from burning fossil fuels is a growing concern and will continue to be. Water cool power plants is always an issue. It is an issue at Potrero. Then there is always neighborhood impacts—generally people don't like these things in their back yard.

Next slide—Solutions—Reliability. What are the solutions to these problems? If what you are worried about is reliability, the very best thing you can do is reduce demand. Especially at times at peak use, because that is when we're fighting for it. You can also increase local generation capacity because that means you are not going to be as dependent on transmission and transmission problems. That can be either Central Station large power plants or distributed power plants, which is part of our discussion today. The other thing I am not going to talk much about but really

should think about additional transmission into the City. Back east they are proposing to run a 330 megawatt power line under the Long Island Sound from Connecticut to Long Island. If they can do that, I'm not exactly sure why we can't build additional transmission under the Bay from Oakland to wherever. That's another one that should be keyed up for your discussion, but we're not going to talk more about it today.

Next slide—Solutions—Cost and Price Stability. If what you're worried about is cost and price stability, again, the best thing you can do is try to reduce demand. As we like to say, the problem is not rates--its bills. You could have high cost per kilowatt hour, but if you're not doing very much then it doesn't matter so much. You could also own your own generation, which at least if the price of power goes up and you are getting paid for the generation, you are getting the money instead of some nasty other generator, as the governor would say. You could also contract for your own supply perhaps. I think Don Schultz is going to talk more about the details of the City getting more involved in making its own electric resource decisions. That is a big gulp. I think generally politicians are more comfortable having somebody else make the decisions and then complain if they turn out wrong, rather than take responsibility and make them yourselves. Generally, the municipal utilities have a pretty good process and it involves the public, but it is a huge responsibility. It's one that I recommend to you. There are other ways that the City could hedge against increased prices. For example, you could hedge in the gas markets against rise in price of gas so that if gas does go up, you are making some money to counteract or offset the cost of electricity. The other thing we are going to talk about is renewable generation. The reason this is a reasonable thing to do if you are worried about cost and price stability, it is basically a very capital intensive form of generation. But once, you've made that commitment there's fuel costs and if prices become (unclear) you could get long term contracts at fixed prices so you know what you're looking at down the road.

Next slide—Solutions-Environment. The best thing you can do is reduce electric loads, and you can also do things to reduce the fuel use, especially locally is probably most important, but also regionally by looking at high efficiency generation. Distributed generation may or may not play into that. Likewise, you can be more dependent on renewable generation and less on thermal generation. Reducing neighborhood impacts is a hard one. Combined distributed generation may play into that; maybe not. Those are the kinds of things that you can do. It's not rocket science. We know what the problems and potential solutions are in general. It's finding ways to do it.

Vice-Chair McGoldrick asked in terms of reducing electric load especially in times of peak demand, what does that require, a timer on the meter?

Dr. Ferguson stated there are a whole variety of programs to do that. We could supply you with a list that is generally done throughout the country. Depends what you are talking about, residential, commercial or industrial. We could come up with

a list like that. There are several. SMUD, for example, has a program where they could remotely turn off air conditioning units from headquarters. People sign up and get a discount on their bill in order to participate. SMUD can basically throw a switch and reduce the load. Let's come back to that.

Next slide—Strategy=reduce electric demand. Dr. Ferguson stated as you saw in all three of these problems, the very best thing you can do is to minimize the use of electricity. I don't care whether you call it conservation, efficiency, or anything else. The goal is to reduce the load on the electric grid. When people start thinking about doing that, you can either think about new technologies, for example like the one that I was talking about. But, basically it means that the old stuff has to get retired. You can't just grow your way out of this problem unless you get rid of the old stuff on the system. The program I am most familiar with is the refrigerator problem. The refrigerators that are out there in use now use about 1500 kilowatt hours a year on average. The new ones—we got a new standard last year, use 500. There is 1000 kilowatts a year difference. If I have a new refrigerator and I plug it into the wall, I'm not saving energy, I am using another 1500 kilowatts. It's unplugging the old one and making sure it never runs again that saves the energy. We need both. We need good new equipment, but you also have to think about retiring the old equipment, no matter what it is, whether it is traffic lights that you are going to replace, LED's or whatever. Then, educating consumers about what their impact is also important. It was something we didn't really understand too much about until last year when the governor cranked up his "Flex your Power" program with amazing results: It was because it was before the consumers on a daily basis in the media and everywhere else that that succeeded. Again, we could talk about particular measures, and there are other experts better than I that could do that. That certainly has to be on top of your list.

Next slide—recommendations to reduce electric loads. What can the City do to do this? In my opinion, the first thing that needs to happen is you really need a good understanding of what is using electricity out there now. Rather than just say, "well I like this program, let's try it". You need to really understand how electricity is being used, not only in your City loads, but everywhere, if you are thinking about getting involved with other customers. In the process, you will be able to identify opportunities. Then, you just have to find a way that everything that is cost effective to do, you do, but it does cost money. It saves money in the long term, but there is an up-front cost. How you raise that money is always an issue. You could look at bonds, utility taxes, and presumably these revenue streams are all going to be repaid in one way or the other from the savings on your bill. As long as what you are doing is cost effective, then it is positive cash flow into the system. We had talked some years ago about what we called an energy efficiency bank, where a customer could go borrow some money from the City or whomever to put in some new equipment, get rid of the old equipment, and basically repay on their electricity bill in such a way so it is cost effective. Their bill still goes down, and nobody is out of pocket any money. It is difficult to do that unless you have control of the bills, and we'll talk about that. The other thing, just a simple one, is to make sure you are

participating at the PUC and their programs. The state has a program of about 230 million dollars a year to promote these kinds of measures. Unfortunately, what happens to that money is often left up to the utility. If nothing else, making your people more aware of the opportunities that are already out there to make sure they get their share of these programs is very important. It's a no-brainer. The money is there, but unfortunately, not enough public agencies are there talking about what's needed, how to deliver these programs, helping deliver these programs, and so on. That would be my very first recommendation is rather than reinvent the wheel is try to make the best use of the wheel we've got.

Next slide—Next strategy is what I call deployment of combined heat and power. Often this is referred to as distributed generation. Unfortunately, and I know there will be some disagreements from others on this panel. The technologies that we have for small-scale onsite generation are not very efficient. They are relatively new technologies. They tend to be expensive and in some cases, they are not as clean technologies as the good central station facility.

Vice-Chairperson McGoldrick asked what does CHP mean on the slide?

Dr. Ferguson stated combined heat and power. I think there is general agreement now in the industry that these technologies make sense to do if you use the heat that comes out the back end for some useful purpose. The simplest one for example is just turbine. Take a jet engine off an airplane. Instead of running the airplane, you could spin a generator and generate power with it, but the exhaust that comes out of it has a lot of heat in it. In fact, the small turbines that are on the market now use less than 30 percent of the energy for the electricity. The other 70 percent, if you are just throwing it away, don't bother. But if you could find a technology where somebody is using heat anyway, and they can put a turbine in the front end of that system and use the heat that comes out the back to run a cannery or whatever their heating mode is--then you're ahead of the game. That's why we refer to this as combined heat and power rather than just distributed generation. Stand alone distributed generation does not make much sense because of the reasons I said, primarily efficiency problems and cost. But, I'm sure there are opportunities, and in fact I think the speaker from Onsite can identify those. Their company is probably the biggest one in California and maybe in the West doing these systems. There again, if you have an audit and you know who is using energy, you can identify opportunities where you could get 10 to 50 megawatts, perhaps local generation and not increase air pollution and get some electricity out of it.

Commissioner Hall asked what are some of the uses for the combined heat and power? What are some of the uses for the heat that is extracted from these plants in your knowledge?

Dr. Ferguson stated there is a lot that is proposed and kind of depends and is a better question to ask the lady from Onsite. For example, a lot of the chillers that are used in hotels and buildings are fired by gas. It's technology basically that the

energy comes in the form of the heat from natural gas, and then there is a process that generates chilled water. So, if you can put your electric generator in front of that and use the heat to run your chiller, that's a good thing. In the valley, a lot of the systems that use this are food processing plants that you need low-temperature steam for running this system. In Europe, they are very often the heat from the back end is used for district heating system. I don't know enough about the details about what goes on in San Francisco to know whether that's an option or not. Just about any system that is gas-fired now that is using low-temperature heat potentially is a candidate for these technologies. But, to get down to the details of where these things have done successfully, you need to talk to people in the industry to find out.

To go back to the slide, there is a problem with what you do with the electricity that comes out of these things. If for example, you had a big hotel to put in a fuel cell set and was using the heat out of the fuel cell to run their air conditioners or whatever. If the electricity that is generated is used inside the building for their own load, there's no problem. If however, the idea is well they're going to generate extra energy and sell it to the City, now there is a problem. We think those are solvable problems. We think it's going to probably take legislation or at the very least action from the Public Utilities Commission to facilitate those kinds of transactions. Right now, they are very complicated. Perhaps, some of the other speakers can give you a clue. It is an issue that is being looked at heavily by the legislature and everybody else because it's a fascinating possibility that we generate power at a lot of little locations and send it around the grid. But, interacting with the grid is not simple. Anybody who thinks that the California Independent System Operator is a simple system operator has it wrong. As long as these things are small enough so the power can be used internally, then there should be no problem, and that's what Onsite is doing.

Next slide—Recommendations for deploying CHP. Certainly one of the things you need to do before you decide whether you are going to do it or not is identify what the opportunities are. That's why I think the idea of an audit inside the City is a good thing. In principle, you can set up a system whereby the capital is raised by the City through some mechanism or another, then it is repaid through the electricity that is produced in the process. But if what you are doing is selling to other entities, then there are additional problems, and we don't right now have the solution to those problems. Another thing that has been proposed by several people who want to do things like this is a thing called net metering. I am not encouraging it to go there, but it probably is something that your consultants need to consider. Net metering is the idea, for example, its used in photovoltaic applications where sometimes you are taking power off the grid and it goes through the meter one way, and sometimes you are putting power back into the grid and running the meter the other way. Basically, what you pay at the end of the month or the year is the sum of the net of those two. We got that system in place for solar, and other people have suggested that it be used for all kinds of other technologies. There are problems with that, basically having to do with bypassing the costs of maintaining the wires. Suppose that you could net things out to zero. On a daily basis, you are putting as much back in during the day as you are taking out at night so at the end of the month you have

zero change in your meter. But, the wires had to be there so that you could take that power out during the night. But if you have a zero bill, then you are not paying your share of maintaining those wires. So, that whole issue is touchy, but it might be used for combined heat and power if you could solve some of those problems. That is why I have the question marks in front there.

Next slide—Strategy—Deploy Renewable Resources. The renewable resources I'm sorry to say is a very difficult one. I know you sold to solar bonds and supported that, but it is a very expensive technology. Compared to the possibilities that exist on the demand site reductions and on combined heat and power, photovoltaics are a very expensive technology. I applaud people who want to put them on a house. It's a good thing. I am considering it for the house I'm building, but it's an expensive technology.

Commissioner Ammiano stated we've been working on this, and the key here is bulk. The more bulk, then that addresses this issue. That's what we're aiming for anyway. The City has their own grid, and we have the up-front cost for the homeowners.

Dr. Ferguson stated I don't mean to discourage that. Every time I run the numbers and I hope that prices come down. SMUD even went to the idea of getting a panel manufacturer to move into the City in terms of a deal.

Commissioner Ammiano stated we also have the advantage of getting state subsidies because it's renewable, because of different categories.

Dr. Ferguson stated and we work very hard to make those subsidies possible. Nevertheless from a matter of public policy, you have to think about where we're going to put public dollars into the system. I wish you all the success in the world, but it is an expensive technology any way you cut it. Unfortunately, the City does not have the best solar site in the world either. It doesn't have good wind sites, good geothermal sites, good bio-mass facilities or fuels. It is a different kind of thing. If what you are talking about renewables is building renewable power plants in the City, I think you have a hard road ahead. If you are going to use renewable resources, you have to go get them where mother-nature puts them. We just don't have a choice. The geothermal facilities exist in certain places and that's it. The wind is only strong enough to be economically viable in certain places. It's just a fact that you have to deal with. But, it is possible to solve some of your problems like the cost problem and the environmental problem by investing in renewable projects outside the City. If you are in a position where you are buying electricity for your own load, then there is absolutely no problem at all. If you're not doing that, then you are going to have to get clever about how these facilities work. After all, Hetchy Hetchy is a long ways away too and somehow we made that work more or less. There are opportunities, and I certainly encourage you to look at those, but they are going to be off-site facilities, over at Altamont. There's more wind available over there that would be a good investment for anybody to make. We are working on bills

in the legislature to make that possible. It is difficult. Because there is so much turmoil, it is our understanding that PG&E is not really very interested in going back into the power buying business and passing those costs through to consumers. There is no money in it for them. It's nothing but a hassle. They are never going to be sure that they are going to get all of their costs recovered, etc. etc. To the extent that there might be a deal here with PG&E where you guys take the responsibility for acquiring your own resources, but it is a difficult one. I really don't know what else to tell you. That is the last slide.

I would be happy to answer any questions. I know I am not as enthusiastic about some of these technologies as other people, and I don't mean to put a damper on it. The closer you get to actually making these decisions, the more you have to be realistic about where the technologies are, what the costs are, and what the opportunities for recovering those costs are and so on. The very first thing that you should do is to have a good understanding of how electricity and energy are used in the City. Unless you are a whole lot different from other cities, my guess is you don't have a very good idea, and even PG&E doesn't have a very good idea, truth be known.

Vice-Chairperson McGoldrick stated just a question from Page 10, your third bullet says participate at CPUC, recommend, promote and administer programs. Could you flush that out a little bit? Is there participation at the level of which the CPUC would give us assistance that is subsidized?

Dr. Ferguson stated the way these programs work now is that everybody in PG&E's territory pays money into the pot. On an annual basis, the PUC decides what to do with that money. Historically, basically the utilities have said, we are going to do this on a more or less take it or leave it basis. Over the last years, there has been more and more opportunity for people or entities like your own to go into that process and say, I don't need this stuff. Our problem here, we need these kinds of programs. The first thing you can do is to make sure that the Public Utilities Commission understands the needs of the City and what the best programs from your point of view would be. The second thing is that the marketing of these programs is also generally left to the utility. Generally, they are spread throughout the service territory and often to be frank do not do a good job. There are some of us who think that they are not really interested in reducing the sales of electricity. So, there is an opportunity for an agency like yours to put the word out through tax bills or garbage bills, or any other ways you have of communicating with the people what opportunities exist to make use of these funds. So that you are self-directing these funds. There is also an opportunity, and I think it's going to grow, to recommend your own programs and conceivably even administer those own programs. The whole question about who is going to control this money, which for PG&E's service territory is \$70 or \$80 million dollars a year. It is a large amount of money. It is not inconceivable in the future if you were going to go with your package to the PUC and say, here's what we want to do, that they would let you administer those programs. There was sort of a pilot that was done last year that was approved yesterday that is

sort of a step in that direction. Unfortunately, I wasn't really impressed with what the local entities came up with. Mostly, they just wanted additional marketing money to push the utility program. I think it's worth spending some of your own money on because it will be returned to the citizens many fold if they can increase their participation in these projects. Lots of people in the room are well aware of how these processes work and can help you out with it. That is sort of my vision for these programs in general is that they become less and less utility programs often for PR purposes and much more use that money targeted at solving problems that the local entities have. I encourage you to join in that process and push things in that direction. One caution that I have to make is that you really don't want to fragment those programs into a bizillion little pieces. It isn't rocket science. Generally, the kinds of things that you need to do are the same kinds of things that Oakland needs to do and everybody else in California. Rather than have twenty different programs all trying to do the same thing with twenty different RFP's, twenty different contracts, and twenty different sets of rules, you need to get together with the other entities and set up a common system so that it works for everybody. The vendors just go nuts if they have to sign different contracts with every city in the world. I know ABAG was trying to do that. Diane might know better than I how that turned out. There are some efforts in this direction to set up regional entities to coordinate these efforts, and I strongly recommend that you get involved with that.

Vice-Chair McGoldrick asked, did you say about \$70 or \$80 million dollars is available annually?

Dr. Ferguson stated we could get that number for you. The total in this particular pot is I think \$230 million dollars for the three investor-owned utilities. PG&E shares about 40 percent of the total. I could get you that number.

Vice-Chair McGoldrick stated that is close enough just to have some idea that that's out there, and we could be going for it.

Dr. Ferguson stated you need better targeting of that money. Its process is out there and lots of people can help with that. I strongly encourage you to step up and get involved.

Mr. Maynor stated I would remind the public if they have any questions they could go to the kiosk and write out your question, put it on the podium, and we'll ask the question.

Commissioner Ammiano asked how familiar are you with European models because almost every country there has some kind of municipalization, wind power, solar power. Are you familiar with their programs?

Dr. Ferguson stated not as much as I would like. There is a current flap in Denmark with the new conservative governor. They decided they had too much wind power. The one thing they have done on renewables on a system-wide basis is basically to

say, I think wind power is worth, pick a number six or seven cents a kilowatt hour. They passed the law called the Electricity Feed Law that exists in Germany, and I think Spain has one and some other countries too. Basically, if a developer can generate power and get it into the grid, they get paid seven cents. The rest of the system works around that. It's been very effective. It's surprised every utility manager in the United States that they didn't have more problems than they did. But that's one model. If you're in a position that you're actually buying power for your own use, I would certainly recommend something like that. If you can sell me solar power for 20 cents, you got a market. That's one of the things that they're doing in Europe. I don't know how the combined heat and power is set up except a lot of those cities were designed for central facilities whether it is air conditioning or heating. So that you have a citywide use for steam. Toronto is using Lake Ontario water instead of air conditioning. They decided they would just pump water out of the lake and circulate it around the city for cooling rather than to run electricity air conditioning. There are a lot of different models, but I am not as familiar as I would like to be.

Commissioner Fellman stated Dr. Ferguson, we do have a central steam plant here. We have the last heat corporation regulated by the California Public Utilities Commission in San Francisco, so there isn't an opportunity for that. The City is looking at that from the City PUC side as a possible generation. I think even City Hall may be on steam, but they are looking at the new commercial building development in the City because that is one of our main industries here. I was going to ask you to give us your observations of how these innovative programs have worked at the investor-owned utilities versus your experience at SMUD, because one of our admissions is looking at the possibility of a Municipal Utility in San Francisco. Have you have seen any differences or benefits to one model or the other?

Dr Ferguson stated the main virtue of a municipal utility, aside from the fact that you have low cost money available, is the process. You've got your hands on the throttle your own self. You are taking responsibility for the outcome and it's a much easier venue for the public to get involved with. I don't think the results are always necessarily better. We're certainly not happy about Los Angeles Department of Water and Power and what they do. They're thinking about buying more coal-fired power from Utah. I think municipal governments in general don't have a particularly sterling record that sets them apart from utilities. They are all over the place. There are good and bad ones like anything else. The main virtue is that you are taking control of your own destiny, and I think that's a good thing to do. I would strongly recommend it. I would say I don't think ownership of the wires is so important. I was surprised at the Muni proposal down here that you wanted to own the wires. It's what we call Muni light systems where the utility continues to maintain the wires at the distribution level just as they do the high voltage wires running around the state. The question of the energy that is bought and put onto the grid on behalf of the city and the people of San Francisco is in the hands of the city. It's called Muni Light, unlike Sacramento that does own the wires. It's an option that I think would

engender a whole lot less opposition from PG&E. They make money owning the wires. They don't make money buying power and selling it to you guys. That's a pass through cost. I think the resource issues—where are you going to buy your power, how are you going to contract, do you have contract law, do you go to the spot market, are you going to build your own stuff? All those questions, more renewables, more energy efficiency, all those kinds of things are in your own hands. Personally, I would recommend you look at the Muni Light option. It would probably take some legislation or at least PUC action, but I wouldn't go in it with the attitude that somehow you are going to sneak out of all the cost that the governor ran up last year at DWR buying power. You are not going to be able to do that first of all, and it's not the right motivation. You need to be in this for the long haul because you want to control the energy that is used in this City. I strongly recommend that you look at it, but I sure would add that option of not owning the wires, just being the one that controls the energy into the system.

Commissioner Fellman stated do you have an observation of a separate Board run Muni versus a City department type Muni?

Dr. Ferguson stated I think the SMUD elected Board is a good model. The DWP Los Angeles model where basically it's a City Council does not work very well. I think the closer the elected officials are to the decisions, the better off you are. I would say that if you are thinking about that, an elected Board directly in charge of these decisions is the better way to go. The more remote it gets, the more bogged down it gets in other political issues. That is certainly what happens in Los Angeles, for example. The option of having an elected Board that is directly responsible for these decisions is a better way to go.

Chairperson Gonzalez stated Dr. Ferguson, you made some remarks earlier and I think I agree with it in a general sense whether or not there is a need to buy distribution lines and things like that. I think the remarks that municipalized power is better because there is some general destiny in your hands, you get to make decisions--I agree with that. I think it's all good, but the question of owning lines also impacts what the cost is. Depending on the feasibility of that, that can be in some cases the precondition of putting together municipalized utility that is successful. While I agree with you, not every model in the state or in the country has been successful at the level that we can categorically say municipalized power is absolutely better than private utility or vice versa. You can't divorce that from the equation. I know that your remarks were not meant to say that you would divorce it from consideration.

Dr. Ferguson stated I don't disagree. I am building a new house in PG&E service territory, and I am dealing with the problem of getting service. I have to admit that I wish there was a local Municipal Utility that I could deal with rather than PG&E. It's a nightmare dealing with that bureaucracy. What you say is certainly true. It depends on what problem you are trying to solve. If it's a cost issue, the opportunities for reducing the cost of the distribution grid, I think are pretty minimal.

You could certainly improve customer service and make people a lot happier than you can now. There are a lot of opportunities there. I don't mean to deny that. Certainly from the cost point of view, there is not as much sort of upside potential for local ownership as there is from the resource side. I am not against it. If you can do it, fine. I just think you should consider other options.

Chairperson Gonzalez stated you concede the fact that somebody else owns those lines. You yourself say that they stand to benefit from that. They are making a profit by virtue of the fact that we have to rent them in some fashion. So, while it may not be the deal breaker in terms of whether or not a municipalized control can be successful or what the level of profit is, it is clearly a component of it.

Dr. Ferguson stated if you want to go that way, I am not trying to talk you out of it. I am just saying it's useful to look at the other model where you are controlling energy only. You may do that first and then do the other later, do it in a two-step fashion. It's just an option. I think rather than butting heads with PG&E and go onto the mat, you may be can sort of go down this road in a step-wise fashion. I am not trying to talk you out of it.

Chairperson Gonzalez stated I am okay with the idea that somebody may disagree or want to talk me out of it. It just seems that when I hear your remarks in that particular area, your remarks seem to be influenced by the fact that there would be a battle with PG&E, be it a legal battle or whatever, it is that you are essentially saying there is a benefit in avoiding that. That seems to be at the foundation of your remarks.

Dr. Ferguson stated partly. I am an environmentalist. The environmental impacts and benefits come from where your energy comes from what you put into these wires. I have to admit I am not as much focused on wires as other people. That probably accounts for my emphasis. That is your call on how you want to approach this. All I am suggesting is I think the option of going the Muni Light route at least as a first step is one that should be considered. I don't mean to talk you out of a full blown Muni. I am a fan of public power.

Chairperson Gonzalez stated the final thing I want to say is you made some remarks earlier about solar. I thought it was interesting because while you emphasize the cost of solar as an environmentalist, you didn't make the point that the public here in San Francisco may have elected to want to use solar energy even if it costs more. Of course, we are trying to make it so that is not the case. But clearly in terms of what the goal is, it may be the will of the citizenry here that we explore a type of energy that is environmentally friendly.

Dr. Ferguson stated I do not want to denigrate the environmental benefits of solar power. I really don't want to do that. The Sierra Club supported that bond issue. I understand that it's sexy politically, and it actually tends to run on peak so there is some value from peak. It is a distributed generation so that it doesn't rely as much

on transmission distribution. I hope that you get the cost down so that it's too cheap to meet her, like Diablo Canyon. In effect, there are other options. You could also put solar power out in the desert, where you get a whole lot more energy for the same kind of price. That is all I am saying that there are other options. I understand the decision that was made and I supported it. I am sorry if I gave the impression that I thought it was a stupid thing for the people of San Francisco to do. If you are interested in getting the "biggest bang for your buck" I think there are other options.

Commissioner Ammiano stated I don't agree with that analysis. However, I appreciate that you put that forth. If we had listened to that, we wouldn't have gone to the voters.

Mr. Maynor stated I think we are ready for our next speaker, and I want to thank Dr. Ferguson for stopping by this morning.

Dr. Ferguson stated thank you for inviting me, and I will keep an eye on what you do and wish you all the luck in the world. If I can be of any help, do not hesitate to call on us.

Mr. Maynor stated Donald Schultz is with the Office of Ratepayer Advocates, which is part of the PUC. I think at one point that was a division that was under the authority of the PUC, and now it is appointed by the governor. He is in Sacramento and is focused there at the PUC on energy efficiency, renewable based self generation program evaluation regulation, energy consumption patterns, energy efficiency opportunities, integrated resource planning, consumer education and protection. Mr. Schultz has worked for the Santa Barbara County, prepared their energy element to the General Plan. He has also worked six years at the Energy Commission in the Conservation Division in Demand Forecasting Office. He is currently on loan to the Governor's Office of Planning and Research. We're interested in hearing Mr. Schultz's comments on some of the same areas that Dr. Ferguson has spoken on, in particular on distributed generation.

Mr. Donald Schultz, Division of Ratepayer Advocates, California Public Utilities Commission stated I work for the Office of Ratepayer Advocates as my main job for the about the last six months. I have been working on loan half time for the Governor's Office of Planning and Research on various aspects of the energy crisis that have come our way in California. The package that you have--what I did as you can see is take the questions that Don had prepared for this and tried to prepare some response to some of them. I focused mostly on the issues and questions identified here associated with what is being called distributed generation. I don't want to go through and read all of this. My guess is you haven't had a chance to read it yourself, but maybe we can just go through and I could hit on some of the highlights.

First issue—What you have here is the definitions of distributed generation at least in recent PUC rulings. This term is something that is used widely in the press and

elsewhere in other states and in other agencies, and not necessarily the same way. I am not necessarily saying that these definitions are absolutely clear and definitive and don't need some further work, but nevertheless and as a long time fan of definitional purity and consistency, I am hoping that the State of California can use common definitions as we move forward and try to define what these products are and how they best fit into California's energy system, and also known in context of San Francisco. You'll notice on the last bullet of this first slide is the definition of self-generation which you can see on the graph. On this graph, self-generation is defined in regulatory terms and also in practice more importantly as sort of a subset of distributed generation. It is the kind of situation that in some cases Rich was talking about where basically the electricity is produced on site, and it stays on site. If there is some excess electricity that is not needed for the load of the building in which it is located, then it may or may not be sold into the grid. As an element of distributed generation and because it is pretty much tied to buildings itself, that's why self-generation doesn't have much potential here or around the state for other distributed generation technologies such as wind or some of the other renewables.

Issue 2 - what are the advantages of distributed generation in San Francisco? Again, I don't think there is anything new here. I am quite sure that you know that the San Francisco City and County and the area around it and the Bay Area in general along with San Diego Gas and Electric have been identified in California by system planners as being the most highly congested. That means that all the vulnerabilities that we experienced in the energy crisis when they come back as well as new vulnerabilities that are on the horizon perhaps, makes citizens and businesses in the city government in the San Diego region as well as in the Bay Area region perhaps more vulnerable than other parts of the state. That means in some way the value of distributed generation technologies is more important here and in San Diego than elsewhere. It doesn't mean that the standard methods of accounting for those benefits will capture those, but they nevertheless are there.

Issue 3 – Is ownership of the distribution facilities necessary for distributed generation? Again I know everybody wants simple answers. The simple answer is no. But a more meaningful answer is highlighted here. Again we go back to some of the basics. just the engineering part of it. The answer of ownership is inexplicably tied to the question of whether this is on the customer side of the meter or on the utility/grid side. If these products are installed on the system side of it, then presumably the ones who finance and sponsor those projects which could be the utilities or could be other power merchants, are probably going to want to own those things and they are going to want to be paid to sell that electricity into the grid. When you get to the customer side of the meter on the building on site type generation, logically to maximize control of that, one would want to retain that ownership of that system. It becomes part of the asset or the infrastructure of that building. It would increase the value of that building for resale or for whatever else you might want to do with that building. It is integrated into the building and electricity if it is done at least the way it could be done is used onsite. Ownership in

all of these issues, as I am sure you know are so interrelated that's what makes it so entertaining to try to find out what's going on.

Issue 4 – Is electricity generated by distributed generation cost-competitive with large power plant generation? At the about the time I came in, I heard Rich talk about his observations on the relative cost effectiveness, and the information I am giving you here is radically different than Rich. This is part of the ongoing argument that he and I have been having for at least a few months, probably a few years. Hopefully, we will continue in the future. Basically what I am trying to suggest is the number that I am looking at recently, is that first off that the relative cost of these technologies is changing and is changing favorably. When I am talking about these technologies, I am talking about primarily onsite photovoltaics and the two leading applications of combined heat and power, meaning fuel cells and micro-turbines. Economics is changing radically in its favor for the variety of reasons I have mentioned here. When you get into questions of relative cost effectiveness, and I know you are talking about PV and peakers and whatever. I think the key point here is if you want to say whether PV is cost effective, the right reference point is peakers because that is the competing research choice. You wouldn't want to compare the costs on a cents per kilowatt hour or a dollars per megawatt of a PV with a combined cycle central power plant station or from imported power from hydro or something else. You would want to compare it to a peaker plant because solar is basically going to provide power or take power off the grid or reduce the load off the grid at the time the peaker would be kicked on. I think you understand that. In terms of the economics, I think that is a fair statement. Even with current prices of PV, and they haven't come down as fast as some would like, they hopefully will be coming down soon or continue to go down. The cost of PV systems should continue in a declining manner. No one can predict how far or how fast they will go down. Even at the current state, I believe it is cost competitive.

Commissioner Ammiano asked didn't the State Energy Commission go out to bid for solar down to 18 cents? That's what I heard anyway.

Mr. Schultz stated we have to be careful about what it is that different agencies pay in the form of subsidies versus what the total cost is. What I'm talking about is if you take the total cost of a PV system, regardless of how much is subsidized or financed by different financing mechanisms, and you compare it to a peaker regardless of who owns and operates and finances that project. That is what I am talking about. That, I believe is the right way to look at these comparisons and the right way to render a judgement on cost competitiveness. Again, there is not going to be a simple answer. If you look for something that says is this cost effective, there is a thousand other questions that you need to be asking. From whose perspective is it cost effective? From the participants perspective if it's an onsite type of thing? From the system or from society? There are a lot of questions that come up. Which type of resources? Is it a peaker? Is it a load following type generation or is it a base load? Those all matter a lot. All of this used to be before deregulation assessed rather methodically in what was called integrated resource planning process in

California. That all went away. It is now coming back and hopefully the questions of how do you compare and how do you establish cost effectiveness in the context of a long-term integrated resource plan. Hopefully, the terminology and standard methods that used to be used will be restored. To the extent that the City and County of San Francisco participate in those discussions, I would hope that you become familiar with those types of methods and methodologies.

Mr. Maynor asked do you share the view with the DOE that natural gas prices are going to increase 50 percent in the next ten years?

Mr. Schultz stated those weren't prices, those were quantities--the demand for natural gas.

Mr. Maynor asked to what extent? Obviously, when there are gas shortages, the prices go up. To what extent does that play in the analysis?

Mr. Schultz stated it plays in a lot. I think if we learned one thing, it has become more risky to try to predict what the future of the underlying... That is the key element that affects cost-effective statements is the future cost of natural gas at the wholesale and retail level, particularly in California, because as we all know virtually any new central power plant that is going to be built is going to be naturally gas fueled. If you do planning on a marginal cost basis or marginal plant kind of thing, which is what most economists argue, and that is sort of the identified deferrable resource--a natural gas fired peaker or a natural gas fired combined cycle central power plant in the 500 to 1000 megawatt. I don't think there is any point in trying to compare them for California and San Francisco purposes, the cost of any of these things relative to a new nuclear plant, for example. I don't think that's worth much pencil time, but I could be wrong.

Commissioner Fellman asked do you see the Energy Commission subsidies continuing? I know there are some issue in the legislature about whether or not the about a \$135 million a year will be allocated for the next ten years?

Mr. Schultz stated we will get back to the question of funding because it is a critical issue. Both the programs that are funded at the PUC and the CEC and elsewhere and how this should be coming together and is real and not real, we'll come back to later.

Issues 5 and 6--what are the air quality considerations for selecting distributed generation in San Francisco. Air quality sooner or later, as Rich correctly pointed out, the main focus from an environmentalist perspective, is what is the source of the generation and of the production of the energy? Not so much a wires-type issue. This is of course the air quality issue. I am sure you are all familiar with re-surging issues of air quality and air quality disputes between Bay Area and the Central Valley. The type of energy resources that are used currently and in the future are inextricably going to be linked with that. The other one that is more recent and has

been around for the next few years is the MTBE/Ethanol dispute that is now getting attention at the federal level and has major implications for both the Central Valley and the Bay Area. Of course, we then immediately as suggested here get into transportation policy issues. The main message here is that transportation issues and transportation energy issues almost have to be dealt with at a regional level. To try to deal with them at a small geographic area is basically fruitless and counter to the larger public interest. I know the various dimensions to this dispute. All I am saying is that these issues are going to affect what you do in terms of stationary energy type applications.

Next slide. Going back to Diane's question. As I think Rich alluded to, but I want to put it in more specific form here. The PUC has been the public agency that has administered \$300 million dollar a year energy efficiency public purpose program for a long time. Rich's notation of 230 refers to the electric portion. There is another 70 million from PG&E on the gas side and also if you include SoCal gas. That money is intended by statute to provide financial assistance and information to customers statewide in the utility and industrial service areas to help finance traditional energy efficiency products and measures in homes and businesses. Everybody who pays into that which is every customer of investor owned utilities, and again I am talking about the four, including SoCal gas, but it is all PG&E in your case. The total statewide is 300. I don't know exactly the PG&E share. But the more relevant question moving ahead would be depending on which way you want to go, what share of the PG&E pot is being collected from San Francisco city businesses and residents. That can be determined or the share of it can be determined without too much trouble. That's one pot of money. That has been there for a long time. That program is one of four public purpose programs that were established by statute with the deregulation legislation, AB1890, which was passed in 1890. Its program life was extended up to ten years I believe in the 2000 legislative session. That money is fixed in statute. It could go up or down in the amount, but there is expected to be a per statute. Of course that could be changed. It is expected that the PUC is going to continue to be the public agency that will be overseeing that pot of money.

The second program that I don't think there was any mention of was created at the PUC under statutory direction with another bill, AB 970, which became law in October 2000. That law which had a lot of features to it directed the PUC to establish a new distribution charge and therefore new program that would promote what would then become self-generation. That is a \$125 million statewide collected by again the four industrial owned utilities. Again, I don't know the PG&E portion, but it would be somewhere in the neighborhood of probably \$50 or \$60 million of that for self generation. This money and the PUC finally got that program up and rolling and running in July of last year. That program is still in effect. That has by PUC direction a four-year program life. These are how long it is supposed to last, in other words charged, collected monthly alongside of the energy efficiency monies. Those two pots of money and the San Francisco share provide the foundation for basis for some stable funding that could be used to enable the City and County of San Francisco to become a program administrator of your share. Those are the two

programs I think most of you are familiar with. The Migden bill deals with the share from San Francisco. That only addresses the energy efficiency program. The same concept could be extended to the self generation program. That same concept going back to some of other Richard's comments and those that are more consistent with what my own are and of my agency, that is that could be done at a regional basis, not necessarily at a city basis. In other words if as suggested in here and getting into some suggested options to consider and I know you are considering, we can go on to the next slide to get to what I am talking about.

Issue 13 - What practical short term and long term recommendations do you have for San Francisco? To look at the two bulleted answers. The short term or moving toward the long term role for local governments are embedded in these two bullets. One is to take advantage of the upcoming opportunity. It is sort of there now, but it's not as definitive as it might be at the PUC. That is to become an alternative program administrator for both the energy efficiency and the self-generation program. Again, what we would recommend in the past when this issue has come up because it has come up a number of times at the PUC is that it be done through regional energy offices, not for each of the 435 cities and 58 counties. That would get back to something that Rich was talking about--some concerns about vulcanization and just serious problems. In any case, establishing that network of regional energy offices. What would be the geographic boundaries of them? All that is not clear. But if ABAG, for example, started to step up to do that. Let me back up. In the case when the PUC established its self generation program about a year ago or recommended that the Commission designate, not put out to bid, but simply designate the San Diego Regional Energy Office as the program administrator for that program--that's a model that the Commission bought. What they did was they just directed San Diego Gas and Electric to take the money that they collect monthly and turn it over to this non-profit regional energy office that existed and had some experience in energy matters. The San Diego Energy Regional Office is the program administrator, not San Diego Gas and Electric for the self-generation. That same model, that sort of flow of transactions, that sort of arrangement, could be extended to other regional offices, and it could be extended to both the energy efficiency and the self generation program. That issue generically about what is going to be the future role of the utilities including PG&E is again expected to come up at the PUC more formally sometime this summer. I don't think any dates have been set. We are going back to what is admitted here and what Rich was talking about. That will be your opportunity to get more formally involved. If you would do it on the context of working with say a regional entity like ABAG, it would probably be received better or be more effective rather than having hundreds of cities showing up independently or all fifty counties. The other thing that I don't think was fully flushed out and I am not sure it was alluded to. There is currently right now the beginning of a statewide bulk procurement effort that has been and is being sponsored by the newly formed California Power Authority that is actually being executed by the State's Department of General Services. The State Department of General Services for years, one of their jobs is to buy on a bulk basis everything from pencils to cars to whatever. Last year, for example, they bought a mass bulk purchase for traffic signal lights, LED's.

That brought the cost down. I don't know the details, but that was a short-term success that happened very quickly. It is easy to do when you have a totally standardized product. In any case, that same concept is being extended now for photovoltaic systems, for fuel-cell products and for micro-turbines. The results of what is called an RFB are just now coming back in, in which the industry has basically said back to the Power Authority--this is how much we will charge on a cents per KWH or a dollar per KW of capacity if you buy to put into public buildings x number of quantity. The theory is the larger the quantity the lower the price. The results of that RFB once they finalize would be to sort of to put a cap on. Anybody who is getting to the project level and actually trying to put together a financial package to get approval to put on one of these systems in a public building--and a public building by definition means city and county buildings, not just state buildings. City and county entities have used this process, this bulk procurement process, for a lot of products in the past. They could do it for this one is the point. How successful it will be in the short term of bringing down the cost is unclear, and the results of the micro-turbine one and the PV one are not yet posted. The idea again is that should put in an upper limit. When you get to a specific project and want to get approval for it, let's say on a city building, then that you would know the names of the companies that would offer at that price. There is no reason why you couldn't negotiate a lower cost. That is how the pressure downward is supposed to work. It is expected in the future that yet another RFB will be released. Hopefully, there will be more manufacturers and want to be installers of these products that will come in with lower costs. The theory is over a period of a few years, this would continue to keep pressure on the downward pressure. The companies will want to know that there is a buyer of these products and the buyers are public agencies. Cities and counties and state government agencies have been selling these products in the 4000 megawatts of load in public buildings in the state of California. That is the framework within this will hopefully happen over the next few years and hopefully again that will start to bring down the prices. Again, I know we haven't done anything quite like this in this kind of scale in California so it's too soon to be completely optimistic. I understand Rich's curmudgeon and skepticism, but nevertheless, Rich, I think it is going to work this time.

Mr. Maynor asked, you were talking about the public benefits funding. Is that like a surcharge that shows up on the bill?

Mr. Schultz stated right.

Mr. Maynor asked if the City was a Municipal Utility, would a Municipal Utility also be subject to the same surcharge?

Mr. Schultz stated yes.

Mr. Maynor asked would they get to control the program itself? Is that how it works?

Mr. Schultz stated basically there are two differences in a Municipal Utility. One is in statute in an investor owned -- the exact amount, the dollar amount annually that is supposed to be collected is identified by statute. The statute for municipals basically says municipal utilities are encouraged to have a comparably-funded collection of programs. Remember, for investor-owned and by statute, there are four public-purpose programs that have been established. One is the low-income energy efficiency program. Another is the non-low income energy efficiency program which is the \$300 million a year. Then there is the RND program that is administered at the CEC, and then there is a CEC renewable program. Those are the four public-purpose programs that were established by statute for the investor owned. The municipals as I understand it, were encouraged by that same statute to have a similar set of programs. They would get to control it and the amount of money that they could use for one versus the other. They could use all of it for RND and no one would know presumably, because there's no state agency oversight of the Municipal Utility's use of that money, or if they are in fact collecting the amount that they were expected to by statute.

Dr. Ferguson stated I think as I recall, the number was supposed to be 2 1/2 percent of revenues, but performance has been very spotty.

Mr. Maynor stated I have another question for both of you. Do you use any computer modeling to analyze these different types of generation models in forecasting in changes and gas prices and at what point do certain renewable resources become-cost effective? Does the Energy Commission, your Department, or CERT use those types of computer modeling?

Dr. Ferguson stated we are involved in an advisory process with all the western states to the Western Governor's Association called the Western Regional Air Partnership Rap. They are using a model like that. It's the same model that DOE uses by ICF Consulting and in fact, we're running that model right now in that process to sort of see what prices and what point to say when to become cost effective. I am not a fan of computer models generally speaking. Basically, what you put into the models, your assumptions influence what comes out so strongly that I am never quite sure what you've gotten. The ICF model is sort of the standard one used by IPA and DOE and it is being run, but what's going to happen to gas prices? As what Don says, that is major input, and you can get just about anything you want out by what you put in. There are models around that are so complex because they have to model interactions between states, interactions between fuels, interactions between technologies, transmission access, pipeline access. They are very complex and certainly beyond what our organization could do and probably beyond what the Energy Commission can do. There are people who can do that.

Mr. Maynor asked would it be safe to say that the difference between you two gentlemen is that Mr. Schultz is more interested in immediately beginning to see more investment in distributed generation, where you would perhaps prefer or

recommend more investment in the energy efficiency side, conservation side? I'm not sure I understood what the differences are between you two.

Dr. Ferguson stated the discussions Don and I have been having--it is an unusual position because I hope he's right. But I don't think he is. He makes the point in his comments too that the distributed generation--how you use the thermal, the so-called waste heat is very important. We've been looking at the efficiencies of turbines and their using natural gas. The fuel for the fuel cells comes out of natural gas. The efficiencies are very important here, and they are not as good as a combined cycle gas plant. Unless you have the stuff in a situation where you are making good use of the exhaust from an efficiency standpoint--how we're using natural gas in the United States is just hard to justify. I think we're in agreement on that that it is very important that where you put these things in, you have to look and make sure that you make maximum use of all of the energy.

Mr. Schultz stated we have always argued in a different way but with the same effect that these products should not be eligible for subsidies or public finance support unless they are used in a combined heating mode power for that very reason. There is not a disagreement there in terms of once you do, we believe they are, from what I've seen, of comparable efficiency to a total efficiency to a central power plant. They don't have some of the other adverse environmental impacts that a central power plant has. There is one difference that I was reminded of that Rich and I have not had a chance to argue about recently. That is, I do believe that the energy efficiency choice as opposed to the on-site power generation choice is a declining market, so to speak. Both because it's been done already or a lot more. There is a physical limit to saturation of these things. The further we get up there, there are diminishing returns and they are becoming less cost-effective. They are going in different directions. If you take the traditional energy efficiency as one clump of stuff, and it's always hard to generalize but you have to at some point, and if you take the other group of onsite self generation, that's a huge potential with the expected declining costs if we stay on focus and do what things are in the works for. Whereas, the traditional energy efficiency stuff--now we are talking about high efficiency lighting systems, high efficiency HVAC and even high efficiency refrigerators. There is a limit here. We have reached a limit. That's probably a declining thing. When you get into that kind of situation, the cost-effectiveness becomes worse, not better. So, I think these things are crossing. That doesn't mean we should stop from running energy efficiency. It just means that longer term that if you had a ten year investment plan, if you expected current year quantities of savings from energy efficiency to be the same for each of the next ten years, personally, I think that would be unjustifiable. Whereas, you could have an expanding amount of load taken off the grid from these other things--that would be reasonable.

Dr. Ferguson stated I don't disagree with Don except perhaps where these lines are going to cross in the future. I would like to report that we had a meeting at SMUD, including the General Manager Jan Schore, on this issue of distributed generation.

We asked SMUD what their discussions had been with their large customers who are maybe targets of opportunity for this technology. She reported that they just had very little interest in becoming electric generators. They say, just give us the electricity for cheap and we're happy. How these technologies move into the market is a question right now. It's an issue that in fact the City could play a role in. For example in some cases, suppose you have a facility that you need steam and you decide that you are going to put a micro-turbine in there and generate the steam with the exhaust. The question, if the operator has to now have an employee who understands electricity, who understands how to connect up to the grid and all the rest of this stuff. That is asking a lot of a company who has never been into this business at all. It was basically what SMUD found is that there was a reluctance to do this. It might make sort of marginal economic sense maybe, but, this is not the business we're in. There has been some discussion about ways to help people get around that. For example, maybe somebody else owns the equipment and leases it to them and provides all of the management that you need to keep the system running and get hooked to the grid and all the rest of that stuff. So, there are a lot of management models. I think how fast this stuff moves into the market depends on how that works out. People need help. Just because it may make economic sense, doesn't mean that it is going to happen automatically. That's why I say if you could in your audit process identify some good looking targets where this makes sense to do and then find out what is the entity need. If it is a public or private entity, what kind of assistance do they need to make this stuff happen? I think maybe more important than the financial role you might play is this kind of management assistance to make this happen. Maybe you aggregate these systems together--I don't know the answer. Maybe on site and new testimony will give some examples of how they have done it. We're just hearing that from utilities all over the country when they go to their customers and say, would you be interested in doing this--the immediate reaction would be no. So people are going to need help making this happen. That is an ideal role for a city entity to play.

Nancy Miller, Esquire stated I do work for SMUD, and it is true that the initial reaction of many of these businesses are, what me, that's not really the business that I'm in. But, there's growing interest and I think if you talked with Jan Schore, the Director at SMUD, she would say this. Particularly, in what I would call our new high-energy demand industries hi-tech, which is a marvelous opportunity for this City, and they just need a little push and a little guidance and that market is there in my opinion.

Commissioner Fellman stated at the City we have the old PG&E steam system still in place. It's not like Sacramento where you have to build a new steam system or have individual ones. We could use that. If we're trying to attract server farms or some of the other bio-tech, I think a lot of those industries given what's happened over the last couple of years are looking at their own sources of electricity. They want to incorporate that into their building costs up front rather than trying to retrofit. That gets a cost savings when you build it in.

Mr. Maynor asked Don, is there any state money to do some of these auditing functions that Rich was recommending for San Francisco?

Mr. Schultz stated there is a difference between auditing the city-owned facilities—that money is available. Through the energy efficiency program that PG&E currently administers, they have offered forever and are still offering the opportunity for each individual building to be audited in terms of what its energy use is. To do an inventory to distinguish it of the whole consumption pattern—how much exactly is used for lighting, how much is used among all residences and government buildings in this geographic boundary? That's the kind of information that has not been done, but could be done. That would be sort of the basis for a planning type function and opportunity. But for actually implementing projects, that auditing service is available. In terms of this specific thing that Rich is talking about, providing the service of actually outsourcing the ongoing maintenance of these onsite products and whether they could be leased or owned. The mechanics of how to put those things together are there. There are some that have been worked out—the city of Vallejo I think is the most prominent example where they have put in a fairly large PV system. It was sort of financed and I am not quite sure who owns it. I am not sure of the details. Those kinds of transactions involving the emerging EESP industry, for example, or the Esco industry, companies like On-Site, which there are perhaps far too many for their case. In any case, there are a number of those that are working in California mostly on energy efficiency stuff, but they have the skills, the information and the wherewithal to put together that package of services for onsite self-generation.

Mr. Maynor stated we have a written question from Charles Kalish. It's regarding the intersection of cost/benefits on energy efficiency and conservation versus solar. Where does Amory Lovins' data weigh in on the amount of efficiencies yet to be gained from conservation and energy efficiency.

Mr. Charles Kalish stated that Amory Lovins had a lot of studies on efficiency in conservation. You are saying that it's kind of reached its peak and from his talks up in Sacramento last year during the power crisis, it seemed like he's talking about an enormous number of benefits still to be gained from both efficiency in conservation.

Mr. Schultz stated he knows that Amory has been saying that forever and he'll never stop saying that. At some point, the laws of physics and economics will come in. You can take one of his favorite things, that is refrigerators that Rich knows a lot about. You are not going to get much lower than 600 KWH a year without another huge investment in some kind of product materials and whatever else that doesn't really exist yet. If you do, ten years ago the average usage for a refrigerator was 2000. Now it's down to 600. A lot of those higher efficiency refrigerators just by a normal turnover in stock are happening. There have been some accelerated replacement for those refrigerators, and all that is fine. All I am saying is that there is a limit. Amory or nobody can know in California definitively right now what the saturation level is of these high-efficiency products because the state of California stopped collecting that data as a part of deregulation. There are efforts underway to

start to collect that, revisit the question which needs to be revisited in my mind every few years and should be done on a regional level that is--what is the saturation level of high efficiency refrigerators? What is the saturation of high-efficiency lighting systems in commercial buildings? There isn't good data on that now. So, no one can say definitively. All I am saying is at some point there's got to be a limit. But because these things have been installed and promoted for so many years, we have to be somewhere on this. At some point, there's a limit and we have to be somewhere down that curb. Whereas with the onsite self-generation type product it's a zero basically now. These are starting to go in and the potential is huge.

Mr. Maynor stated Ms. Lowe is here, that she is from the private sector and will help resolve this dispute between these gentlemen.

The San Francisco Local Agency Formation Commission hearing recessed at 11:20 a.m.

Chairperson Gonzalez called the hearing to order at 11:48 a.m.

Mr. Maynor stated that Elizabeth Lowe is the Vice-President with the On-Site Energy Corporation, which is in the business of both energy efficiency and distributed generation. She is responsible for the firm's operations and regulatory representation in Northern California and Texas, and she has a particular expertise with industrial and food-processing customers. She also has capabilities in the areas of natural gas and electric purchases and overall customer strategies to reduce energy costs. Prior to joining Onsite, Ms. Lowe was the Vice-President with Duke Solutions, which is part of the Duke Energy subsidiary. That involved working with retail and wholesale customers to develop and implement overall energy purchasing strategies. She has assisted in the past large energy consumers and the development of the energy cost -education strategies through procurement and management of fuels, tariff and contract negotiations, aggregation strategies and demand-site management planning.

Elizabeth T. Lowe, Vice-President, Northern California, Onsite Energy stated I am also here representing the interests of National Association of Energy Services Company, which is why I believe our company was contacted originally. So, I can speak to issues beyond just some of the industrial work that I am responsible for, but also the NAESCO market and the kind of market we see in California with projects both in energy efficiency and distributed generation. I did leave some handouts on your desk.

Starting off with the pie chart I have here, it's our belief, and I am going to give you a little bit of insight from the trenches, what we've seen with energy efficiency opportunities and distributed generation opportunities in California. First with this pie chart, we see still very large opportunities for energy efficiency savings for customers. If you look at their overall bill, there's an opportunity we're seeing saved between 15 and 30 percent on energy

efficiency with usually between a two and five year pay back in most cases. Those paybacks have been improved given recent rate increases for customers and obviously having a downward trend on those paybacks. So, I put this here just to indicate there are various strategies to pursue. Co-generation and distributed generation are actually not on this chart. It's actually more of a focus on energy efficiency.

Turning to the next page on current trends. Pricing trends aren't looking good for energy consumers, which is maybe one reason why we're here. However, natural gas prices are lower. What we're seeing is a disconnect between low wholesale prices for electricity and high retail rates in California, whereas, the retail prices for natural gas reflect better the wholesale market for natural gas. We have seen a huge price increase for customers in California. Many have seen between a 50 percent and 100 percent rate increase depending on how they are using energy throughout the year and if they are summer-peak or winter-peak loaded. However, we have also seen incentives for customers interested in pursuing energy efficiency, peak load reduction projects, and generation. So, the strategies we believe a customer should pursue include purchasing from third parties, particularly natural gas and at this time, pursuing peak load reduction strategies including thermal storage, distributed generation. Thermal storage has not been a very viable kind of strategy in the past because there hasn't been a large differential between on- and off-peak rates. Thermal storage basically involves using ice or water that you are chilling at night during off-peak rates and you are running it through a system to run air conditioning or HVAC systems during the day. So now, that is more of a viable strategy just given on- and off-peak rate differentials. We also believe that customers should become as efficient as possible because the best way to reduce cost is to use less and then look at onsite generation options. I think pursuing a lot of these in parallel is a good way to go.

I have got a list of projects here in industry. I know there has been some discussion before I got here regarding lighting and HVAC. Some of the things I have included here go way beyond that including a lot of industrial process kinds of projects. Looking at frequency drives and control systems that are going to take existing equipment and make it run more efficiently as well as putting in more efficient equipment taking all inefficient equipment out and putting more efficient equipment in. Boiler retrofits and condensate return systems are basically using waste heat from a boiler system and putting it back into the system so you are using the heat more efficiently. Several examples here. I also had onsite generation.

I am going to talk a little bit about energy efficiency and then talk some about distributed generation and then address questions. In energy efficiency, as I mentioned, we believe the most effective way to lower cost is to reduce how much you are using. Our company and other energy service companies have also been referred to as EESP's or Energy Efficiency Service Providers in the

deregulated market. Energy service companies are probably just a more frequently used acronym. Our companies will identify, will look at a facility, will audit facilities--I know there were some questions before about auditing, and look at what the opportunities are on commercial and industrial facilities. Primarily, there are some companies that also work through contractors to look at residential facilities. We'll do audits, preliminary engineering. We'll bring regulatory incentives and then implementation can include financing, project management, guaranteeing of savings of those projects and measuring of the savings. There are many state incentives. I've listed some in California and in other states as well.

You can flip through the next few pages. They simply have pictures of some of the types of projects that energy service companies implement. Controls and energy management systems have been particularly effective over the past number of years. We've seen not only controls working well for lighting systems—obviously, you have probably experienced this where you have got motion sensors where the light goes on when you are there. If you take that to a larger level with large industrial customers who are running say three big pieces of equipment and the controls rely sense when the production is going down, normally those pieces of equipment will continue to run or are manually controlled. Now with an automatic control system that has various points of connection into that facility, it will automatically shut down pieces of equipment. So we're seeing dramatic savings from controls.

The next page shows some case studies. I know Don has been very involved in the Public Utilities Commission's dealings with the incentive programs, and he was on the committee that helped develop these programs in recent years. I have the energy savings shown here where you have energy efficiency savings, which are the bottom line dollar amount. The customer is saving T&D savings if there is a voltage or transmission-related project done putting in the substation for that customer. These are all state-funded incentives that have been implemented for large industrial customers and then you have capital. You see the annual bill where there has been a savings impact of 16 to 32 percent. The simple payback (the state incentives have been paid for several years) is actually closer to two years, but I just put in all of these numbers as if they have been paid in year one. These are again for industrial customers who have literally done no energy efficiency projects in the past. The way that a lot of manufacturers work is that no money goes towards energy efficiency. It all goes towards new production. In fact, we dealt with a large defense contractor at one point, who is virtually going to the scrap yard to find pieces of equipment to hold things together where they are getting millions of dollar for building very large complex pieces of equipment and putting a lot of money into that. So, these incentives have certainly gotten attention in that the paybacks now are more reasonable. They get the attention that they are two years and less payback. Companies are more likely to do these kinds of projects.

The next chart just shows some of the projects that Onsite Energy has been involved in with incentives and saving customers significant amount of money and bringing in a lot of incentives.

The next several pages are some case studies. I think for the purposes of this meeting, we can flip through the case studies 1, 2, and 3 and put them aside because these are more food-processing related. But, the reality again is that none of these projects were done before the incentives were available. Case study 4 and 5 are probably more relevant for this meeting in that one is a multiple facility bank and the other is municipal buildings. So, chillers were installed in this bank, cooling tower, a control system, lighting retrofit. There were incentives of \$270,000, capital of 1.1 million dollars, and an annual savings that were significant. So, you can see how these incentives continue to provide value and benefit to the customer.

Municipal buildings—this was some work done in the city of San Diego. Chiller and cooling systems or handling systems again controls, and lighting retrofits and variable speed drives, significant incentives in capital. This project was then financed with a guaranteed savings over a number of years. The city of San Diego is pursuing more and more projects at each of their city-owned facilities.

I know there was some discussion about incentive programs in California and I have provided a bit of a summary here. We do not know the final incentive numbers on these. We in essence have payments between six and twenty cents per kilowatt hour depending on whether you are doing a lighting system or a refrigeration system. Natural gas has some incentives as well. There is up to \$300,000 available per site and \$1.5 million per corporate entity that is being proposed. There has also been California Energy Commission money as you probably know. We actually got some money for an agricultural program, but there has been other money going out from the Energy Commission focused on kilowatt demand reduction, so not just the KWH, but getting peak demands down in the state. Distributed generation incentive—again I think that was discussed earlier--It pays 30 percent for cogeneration projects. It pays up to 50 percent for photovoltaic projects, 40 percent of fuel cells. So it is promoting again distributed generation and smaller facilities with some innovation in fuel cells and photovoltaics also being an incentive. PG&E has \$60 million dollars this year and will continue to have about that amount through 2004. There is about ten million dollars, actually maybe fifteen I think is the net amount going out to commercial and industrial customers in the PG&E energy efficiency program this year.

With that, I'll turn to distributed generation. In the past, there has been more use of onsite generation for transmission and distribution reinforcement or we've needed new power in the system. Certainly two years ago there was a

big push towards increasing the amount of generation we had. Not really as much as on a distributed generation level, but for putting in some big generators as you probably know. Merant is in the city of San Francisco and Calpine and others are in other parts of the state developing projects. With distributed generation, at least the energy service company focus has been more on the incentive-based type of projects. So 1.5 megawatts and below usually on projects that are going to provide some additional reliability for a customer or are going to maybe give that customer the ability to be self-sufficient. I know there is some discussion before also on the importance on steam usage. Co-generation is very efficient on a small level and that it is using instead of using gas to run a boiler for heating, you are actually using the waste heat from the generator for heating. So you are creating steam from that. So there are some great efficiencies there. I think that certainly that is the only thing that is incented in the state program is when it is combined heat and power where there is a use for that (unclear) steam. The larger generators are just building large generators and not necessarily have any use for the (unclear) steam.

The conclusion on distributed generation from our standpoint is there is high electric prices, there is low gas prices, there is some value of distributed generation particularly in some transmission constrained areas. Customers are screaming about reliability. They are screaming about high costs. They see distributed generation as providing a solution for both. Most generation is distributed generation technology is proven. We are also seeing a lot more vendors in the marketplace coming to California, seeing things like air permitting requirements and then coming up with solutions so there is no Nox emissions from their gen sets. So there is a lot of innovation going on in this area.

The next few slides are really here for your information just indicating that there is a very large market. There has not been much penetration of co-generation, particularly in the food sector that's been much more at steam than Petrochem. If you take that down to the commercial level where you are looking at smaller facilities or rooftop units, it's even lower or more limited penetration in those market places.

In distributed generation, the current opportunities we see to lower cost for customers are fuel-switching going from electricity to natural gas since gas prices are low and electric is high. Looking at generation, engineering solutions or more efficient equipment and shifting operations off peak, load profile adjustments, and we also see some savings on voltage upgrades where customers may get power at a higher level of transmission and reduce their distribution costs from a utility.

What are some of the challenges? We think it is very important with a lot of vendors running around saying that their type of equipment is the best

whether this is energy efficiency frankly or distributed generation to appropriately evaluate the type of equipment so it is correctly sized for a customer given their load. At this point, we are not recommending that a customer sell back at this level to the utility because they may be paying 12 cents for electricity, but the marketplace is going to pay them too. It doesn't make a lot of sense to do that so generally being a self-generator is important. Permitting could be a problem certainly in California, but as I said before we are finding some very innovative technologies that have reduced emissions and some no Nox emissions types of technologies. There is also a limited opportunity to pursue distributed generation because these incentives we believe have been so critical. If they are paying 30 percent of the total installed cost, we only have a few years to install distributed generation. There could be even more limitations on that if the state comes back and says we are going to take some of that money back, which is always a concern for many of those programs. We are seeing that right now in fact with the California Energy Commission where there is a lot of money put in place and contracted for peak demand reduction for a project installed this summer and last summer and a lot of that money is being taken back. We are looking at a limited window. Although most large developers are going to see value in size, so bigger is better, right now I think there is a very good market and more vendors out there who are focusing on smaller distributed generation units.

In conclusion, I hesitate on this first point because we are looking at the alternative to going completely off the grid, and the potential that there could be exit fees. So, what can you do as you are evaluating that? What can you do if that is not a feasible strategy? There are other approaches to reducing costs. You can pursue these parallel and I think it makes a lot of sense in any case in this environment. There are incentives out there for energy efficiency and distributed generation. I believe you should be as efficient as possible and then put in distributed generation so you size it appropriately. I also think that there is a lot of discussion of course about where rates are going to be over the next five years. But I think the economics are there right now for small co-generation. I think the environmental benefits of co-generation are significant and of course as we see these new technologies with low emissions, they're even better and permitting costs should not be significant. There is also a growing number of developers. Although we have seen a decrease, not only in the ESP's who provide a commodity only in a deregulated market, we're also seeing a decrease in the number of energy service companies who are in our business. But, there is a growing number of I would say vendors, the companies who actually have the equipment for distributed generation or who have the more efficient appliances or more efficient control systems. That marketplace is really growing, so there's more and more options there, some lower cost options and again, these environmentally conscious options as well.

I think the last page just has very fine type with your introduction.

Vice-Chairperson McGoldrick asked Mr. Maynor would you referee a running dispute this morning or a discussion of course regarding the maximization of energy efficiency and whether or not there is a kind of cap there where eventually you just can't reduce it anymore and that there is a natural recurrence of replacement factors with things like refrigerators and so on. How far do you think we still could go in terms of energy efficiency?

Ms. Lowe stated my opinion is a little bit different from my colleague on my left. I think there is a huge opportunity. Part of this is from personal experience where our company has gotten into the industrial marketplace that has literally been untapped for energy efficiency when there's all the pieces of equipment and production has taken priority for projects. We are also dealing with large commercial buildings. Again when the focus has not been energy efficiency, the focus has been making this chip or this widget and doing it no matter what the cost. I think Mr. Schultz is right that when you look at appliances, there may not be more room to go in terms of efficiency. In the market there is very efficient equipment. Then the next question is how much of that has gotten into the market to be used by customers. I'm speaking much more to the commercial and industrial types of buildings where there are huge opportunities. In a lot of cases people have installed lighting. Maybe they have installed lighting five years ago. Now there are new lighting technologies that could be put in. Maybe they don't have lighting controls, so those lights are very efficient, but they are never turned off. I mean again I think those are opportunities on the HVAC side adding controls, putting in more efficient equipment there is still a lot of opportunities these, and technologies are improving all of the time.

Vice-Chairperson McGoldrick asked what are those initials that you used?

Ms. Lowe stated HVAC for Heating, Ventilation, Air Conditioning. So HVAC systems, there is a lot of opportunity for improvement there at each facility level. Then, when you get into industrial process which gets very sticky in dealing with those types of customers. They don't want you coming in and messing with their process even if you are just dealing with an engine room and it's not going to do anything to affect how they are producing some widget. We found significant savings. That's where we're getting to the 30 to 40 percent cost savings on those types of projects with two to four year paybacks. So, it's not saturated from my standpoint.

Vice-Chairperson McGoldrick stated, but I understand the short of it too is the industrial and commercial as opposed to the residential. The residential may be already more saturated.

Ms. Lowe stated, and I don't know that. I think that Don was also commenting that we don't have the kind of data. We know what's there for sale, but we don't necessarily know how many people have bought it. So, on residential, I really don't have an idea. I think it's certainly given the increased interest in energy that we've seen in California that's been a front page issue over the past few years. I bet people are a lot more interested in seeing little appliance efficiencies now than they were three years ago.

Vice-Chairperson McGoldrick stated let me give you an example. For example, you list as one of the many items electronic ballasts and I think what they call T21 tubes that they replace the old fluorescent tubes, the old neon tubes, the skinnier ones about an inch in diameter.

Ms. Lowe stated there are T12's and T8's. Now there is T5's.

Vice-Chairperson McGoldrick stated and I remember seeing people starting to install those in recent years. I know we have an energy efficiency system going on right now with our small businesses. We have about an 8 million dollar grant that some folks in the small business community were able to get and going around the small businesses around the city right now. My question is, what percentage of the commercial or industrial opportunities would you say have converted to something like electronic ballasts with T12's or T5's and so on? Would you venture a guess that there is less than five percent or 40/50 percent or any idea?

Ms. Lowe stated I don't have an idea on electronic ballasts and what kind of saturation we have. I will let Don comment on this. One thing I would say one of the big struggles we have with commercial buildings installing these types of units is if they have tenants, then they are passing on the costs to their tenants. There is not necessarily an incentive in all of these high rises to put in electronic ballasts. I have always found it amusing when I would go into the PG&E building that was leased from somebody else, and you go to the floor that was the energy efficiency floor and you look everywhere and its magnetic ballasts and the T12, the more inefficient lighting. But, the tenant had no incentive to install this because it was all passed through on their lease.

Mr. Schultz stated, this goes back to the point I was making earlier. There has not been a convincing study done of where we are. That should have been done on a time-series basis so we could see the effects over time just to get some sense not only of the saturation level, but the saturation rate. That kind of data was collected on a bi-annual basis through the 80's and into the mid 90's and then that was stopped. There is an effort underway now to sort of redo those studies to try to get a better sense of where we are on that penetration curve for different end uses. I think the best way to approach this is through different major end uses meaning different within ratepayer

classes. The large customers are a whole different thing. I don't know. This may be right that there's a lot more there. All I know is that the utilities have reported major savings from that industrial class, the large customers, for many, many years. I never personally believed what they said, but there have been reported savings. To say that it has been untapped, would be unfair. Also, what nobody knows is what appears to be reported by the only authority who has access to the data that there was a huge, huge reduction in consumption last year. The argument is over why and which customer classes. We don't know the answer to that because the data to provide that which will shed light on these questions.

Commissioner Ammiano asked if somebody is doing an analysis of that? Is it available?

Mr. Schultz stated there have been comments in the media on these various aspects, and there is a study underway. There is data being collected to do some kind of studies to shed some light about what exactly did happen last year. There is widespread agreement that a huge unprecedented level of reduction of consumption statewide happened. There is not reliable data happened whether that happened more or less here versus there, large customers versus medium, whether that was a result of changes in behavior which was a one time effect, whether that was a result of investments in energy efficiency that have a long lasting effect. That is the information that is not available.

Commissioner Ammiano stated I have always contended that when PG&E was reacting to everything and saying we must conserve and that's the answer--I always thought that was kind of patronizing because I thought California did have that awareness and actually were very conservation minded and maybe that coupled with made everyone feel more conscious about it.

Mr. Schultz stated and the core question is whether that is going to be repeated. As opposed to whether that change was a result of a recession or whether that reduction was a result of investments in significant long lasting energy efficiency products. Those are the unknowns right now.

Commissioner Ammiano stated as an FYI, my office is taking the lead on a refrigerator-replacement program for the public housing developments here in San Francisco. We are going to replace them. The current ones, which really eat a lot of energy up with energy efficient ones and the cost savings will go back. It will be 2,000 or 3,000 refrigerators. It is working out well. Except of course all the vendors are calling us now, Maytag and they want to try to pitch it to us.

Mr. Schultz asked, do you have a sense of when once you do that with the money that you are pushing out, what percentage of public housing refrigerator use will you have effected?

Commissioner Ammiano stated in San Francisco it would be 100 percent. There's also an issue of what do we do with the old refrigerators. That's another issue. I guess they have freon—I'm not sure. But, they just can't be disposed of.

Dr. Ferguson stated I have a question of Commissioner McGoldrick. How would the City go about trying to assess what potential there is on a citywide basis. Is there some kind of statistical sampling you can do of the various kinds of businesses to find out. I was asking this question myself and I just don't know the answer.

Mr. Schultz stated utilities do report to the Energy Commission, sales by both an SIC code and rate class and so on. If we had that on a geographical basis, consumption by business type, by foreign designated region, then you could whip from other information make an estimate what the load profiles are within this.

Dr. Ferguson asked, but what opportunities exist for companies like Onsite to fix it?

Mr. Schultz stated I know. But to me, starting with basic actual consumption data by those different categories provides the outer boundary.

Vice-Chairperson McGoldrick stated, I think you are just talking about scoping and sequencing a survey in terms of certain parameters that you would establish that would have trip switches in them that would revolve around the technologies available at the time at say when the buildings were constructed for one, let alone the uses for that building. You could take pre-impost 1930, pre-impost 1950, pre-impost and so on. You just go on and do some samplings and request permission to go in and visit a few places. Would that make sense to you all? Then that would give you something as opposed to a more morphis survey that is looking at a total load without accounting for the particularities and specificity regarding those actual buildings and their uses and their time of completion and occupation and so on.

Mr. Schultz stated that the kind of survey you are talking about is the right kind of survey. Those surveys were done in the past. They are in the process in the CEC as a protracted negotiation. The data, to do that survey, you have to have the total population of customers and you have to know who they are and where they are. You have to figure out who the representative is to know who to contact. That information is controlled by the utilities and always will be because they have the actual sales data. The qualifier in this,

In the past those surveys have not been stratified as they say by region within the utility area. They could be, which would be a more costly survey. If you did that, you would have a sub-utility area survey information that would lead information into what the current consumption is, what the major end uses are and what already has been done based upon customer responses to the survey.

Vice-Chairperson McGoldrick stated an inventory of certificates of completion of buildings of certain types would be available with our Planning Department. That is all part of our inventory of real estate that we have public and private.

Mr. Schultz stated that would give vintage oriented. Because the state of California having Title 24 standards and that kind of thing, that would give at least another reference point to get a handle on consumption by vintage.

Ms. Lowe stated I think you can do a survey. I think it's possible to start if you are looking at San Francisco in particular. You've got groups and I have talked to San Francisco BOMA for instance. When you go through BOMA and provide through them a questionnaire, and we have a standard one page questionnaire that says what do you have in your building and a checklist of type of equipment, and then you can see what the opportunity is. With BOMA, you could get a great sampling of the large commercial buildings here. Then if you wanted to get more industrial data, you could send that to a sampling of industrial customers. If you wanted to get retailers, you could send it to a sampling there. I think it's possible and basically it's a one page questionnaire that you need to get back. Isn't that always the struggle? You send it out, it's great. It will give you great information, but you have to get it back.

Mr. Maynor asked what if you were to do a survey of industrial customer or hospital for example and you concluded they would be a good candidate for a co-generation facility. It looked like some of the pay-back periods were very short with these incentives. I understand the incentives may not always be around. If the end user did not want to pursue the project for whatever reason—let's assume the City would want to become a Municipal Utility—would that be a project that they could finance and recoup within a short period of time? Are the savings that identifiable where you could actually work out an arrangement with the end-user that will reduce your energy bill by ten percent or will keep the benefits of having invested in this facility? Is that something that can be done?

Ms. Lowe stated absolutely, we are actually dealing with some folks on the distributed generation front where you were actually working with them on setting up another legal entity that would in essence sell power and steam to itself. So what you are doing there is acting as the operator and companies can come in, operate, and maintain that facility. It is important to realize that

you are providing electricity and steam to that customer because that is really what makes the economics work, and is significant savings because instead of buying gas for heating, they are buying gas for this turbine that is also creating electricity. It is a real benefit there with the steam.

Mr. Maynor stated in effect there may be a short time period or opportunity for a City to do this if the incentives are going to go away in three or five years. That would be an ideal opportunity to invest in some of those specific opportunities that an audit may reveal in the City.

Ms. Lowe stated I would think so just because of the window of opportunity.

Dr. Ferguson stated these incentives are being paid for by the customer. It's not free money. So, if you were to go about setting up your own utility, you have the same ability to raise this money from your customers as utilities do. Again, that is another argument of taking charge of your own destiny that you get to make the decision whether you want to still raise money from all of your customers to provide these incentives.

Ms. Lowe stated however, isn't that more the case with energy efficiency incentives and less the case with distributed generation? I thought distributed generation was coming from more of a state pot as opposed to a direct line item on the bill.

Mr. Schultz stated it is not a line item on the bill, but it is a monthly fee that is being collected. Whether it starts to appear on the bill is up to the PUC.

Ms. Lowe stated that for distributed generation, that money is available for Municipal Utilities.

Mr. Schultz stated the Municipal Utilities were not by AB 970 ordered to create a comparable self-generation program that the legislation did order the PUC to set up.

Ms. Lowe stated I thought there was some funds available.

Mr. Schultz stated no, the municipal utilities have been left with considerable flexibility. They could use the public goods charges right now that they are collecting for anything including subsidizing self-generation or whatever else or energy efficiency or whatever else. They are given much more flexibility by statute.

Ms. Lowe stated you could certainly argue that this concept of getting the incentives that are out there now for energy efficiency and for distributed generation (as much of those funds in that are kind of paid for by San

Francisco customers now). Use as much as those as possible while you are evaluating the feasibility.

Mr. Schultz stated I would urge you to focus on your own buildings, the buildings you control. In some way or another, you are going to approve or not approve projects for energy-efficiency upgrades or self-generation. Those are the ones you are going to see that are going to get approved. That money is available to help finance those. As a customer, you pay into those charges, into those funds. How long those charges will be assessed will depend on future legislation and future action of the PUC. But at least for the next four years, you are going to have access to that money to help pay for investments in energy-efficiency products and onsite self-generation products in public buildings on your own--beyond what you might want to try to do to encourage other businesses and residents to participate. That's what you have control over right now is the electricity usage and the electricity bills of your City and County buildings.

Ms. Lowe stated and that's what is happening down in San Diego in fact. One of the projects that I mentioned earlier. Next is the Police Department, then it is the Pool, then it is the Library. It's all of those city-owned buildings that are being done right now in San Diego.

Mr. Maynor asked are you involved in that project?

Ms. Lowe stated, yes.

Mr. Maynor asked do you have any descriptive material that you could share with us at some point?

Ms. Lowe stated sure, I would be happy to share that. Onsite got a contract with San Diego a couple of years ago.

Vice-Chairperson McGoldrick stated you may already know. This building got renovated in recent years and was basically retrofitted in terms of high-efficiency factor. Of course, we have another building on the 500 block of Golden Gate Avenue that's just beginning. That's a very so-called green building and very similar to what the new Federal Building in San Francisco is going to be. I was going to ask you, and I appreciate your reminding us of all that--in terms of the public goods charge that you just referred to, you say there is a lot more flexibility in terms of the municipally-owned or publicly-owned facilities. Is that number one question, is that partly because there is an assumption that there is already probably a public goods objective and mission at work with a publicly-owned utility. Secondly, is there any kind of cap in terms of a public-goods charge? Is there any ability of the localities to actually tap into the public-goods charge? Is it only at the CPUC level that that can be done?

Ms. Lowe stated there are with the public goods charges related to energy efficiency, those are only available to customers in investor-owned utility areas.

Mr. Schultz stated no, by the same statute did expect...

Ms. Lowe stated, okay, thanks. There are programs available with municipal utilities. They typically have not been as lucrative as the ones run by PG&E, Edison and San Diego Gas and Electric in particular. There are state-imposed limits. I think I mentioned that there is \$300,000 per facility and 1.5 million per corporate entity whether you look at the City of San Francisco as a corporate entity.

Mr. Schultz stated those are program design details that change every year per order from the PUC in the case. Or, if you are talking about a municipal utility, a municipal utility itself could change those kind of program design details. Municipal utilities can also change the amount of the surcharge for any particular purpose that they want to. Those are not restricted by legislation. But to come back to your first question of why was that. My own observation is pretty simple is that it is pure politics. Municipal utilities are local government. The legislature does not tread lightly in terms of dictating things like that to local governments. That's why they gave them a lot of flexibility because the municipal utilities and their associations at the time this was discussed came forward and said look, we'll do these things, but don't tell us exactly how to do it.

Vice-Chairperson McGoldrick asked is there an inventory that you know of of the institutions in San Francisco who are actually doing self generation, or is there any idea about what level of self-generation might actually be generated in San Francisco? Is there anything comparative to other cities that are comparable to San Francisco. I know there aren't that many. Fresno, we'll say, San Jose, San Diego, Los Angeles, where self generation is known. Do you know what the levels are?

Mr. Schultz stated I am sure that San Jose city facilities have installed for example some PB's. I'm quite sure I heard about that. My guess is that was partially financed by the self-generation program. If it wasn't, it was a mistake. Lots of cities and counties are starting to do this. There have been so far media reports about these kinds of things that they are in the works or have been approved in the last six months, and we are just recently starting to see final evidence that they have happened.

Vice-Chairperson McGoldrick asked how about large public institutions like universities, colleges, and school districts? I know those are more spread out in terms of the aerial factor. But, is there any indication that there are a lot of

people hopping on board with that? Is there anything in San Francisco that you know about in terms of public institutions, not just City and County of San Francisco, and then any large private users. What is the level at which self-generation is occurring with large private users?

Ms. Lowe stated there has been a few waves of looking at co-generation. In fact, Onsite started twenty years ago in the generation market. That was when there was interest in working with third parties where we had qualifying facilities that had a steam load and could produce electricity and this interest in diversification in the state of California. So, there were a lot of universities who installed co-generation. So they used the waste heat. We are talking bigger scale, say 10-50 megawatts in size, generally. What I've been talking about with distributed generation is a much smaller unit that is eligible for these incentives. So, for a period of time in the 80's, you had a lot of co-generation being installed. If you look at the more recent years, until a couple of years ago, you had low electricity prices or anticipated lower electricity prices and in fact higher gas prices so it didn't make sense to pursue generation. People were looking at feasibility studies but no one was doing it because the economics didn't make sense. Now, high electric, low gas, and incentives--I think a lot of people are looking into this. How much is installed so far I don't know. How much is installed in the city of San Francisco that might have been done ten to fifteen years ago, I don't know the answer to that either. But I think interest, certainly given the marketplace and the incentives, there is considerably more interests now than there would have been two or three years ago.

Vice-Chairperson McGoldrick asked is it traditional to have to strongly motivate and incentivize these things as opposed to letting the market sort of cause the fluctuations in interest?

Ms. Lowe stated we have certainly seen a big difference when you take the payback from seven years to four or something like that. There is a dramatic impact, and it goes from a project that is absolutely not going to go to something that gets some interest. Of course, now you have this coupled with a lot of corporations who are saying they want increased reliability. They don't want to go through what they went through two summers ago. Everyone considers that last summer was mild. The other thing that people consider, and I know I am kind of going back to an earlier discussion, but last summer was mild and there wasn't as much demand. A lot of companies simply shut off during peak hours and they sent people home or they had them work over the weekends, and it was a disaster for some of these businesses and their relationship with their employees. They vowed, we are not going to do that again so what do we need to do now to avoid that? We are going to put in distributed generation so we can run off peak and not worry about what the prices are, have reliability and things like that. So, going through last summer with high prices, people shutting off again. A lot of

people now are more interested in distributed generation I think than were before.

Dr. Ferguson stated historically, most what would be called distributed generation was used for backup generation and usually diesels. There is an enormous amount of that stuff around. It's not the kind of technology that we've been talking about here today because it made no use of waste heat at all. That was a big concern last summer that people would start using that as if it were additional power for the grid. The California Resources Board because it tends to be dirty diesel stuff did develop a list of all that, but I don't think they got down to the level of detail of small combined heat and power facilities. But, these would have to be permitted. So your Planning Department might have an idea.

Mr. Schultz stated I don't think these small ones would need to be permitted by the City. They would need to be registered with the utility.

Dr. Ferguson asked you would need a building permit, don't you?

Mr. Schultz stated no, I am talking about a retrofit case. I don't think the City is involved. I could be wrong. Let's say a small commercial building put in the rooftop PV. It would reduce their annual load by 25 percent from what you would get from traditional energy efficiency by the way. I don't think that would require a city.

Vice-Chairperson McGoldrick stated it wouldn't be a Planning Department issue. It would be a Department of Building Inspection issue with electrical, gas and utilities.

Mr. Schultz stated that they as well as the utility would have to sign off. What information they get would be different. Like the utility collects information on the size of it and that it has met safety standards and whatever else. I am not sure what the City would actually get. Does the City keep records on the exact location of it and what kind of business it is?

Commissioner Fellman asked, don't we have to have that kind of review? I think under Title 24, which was developed twenty years ago, do commercial buildings also have to comply with Title 24? Any home improvement or residential construction in the City has to show what their energy use is going to be under Title 24.

Mr. Schultz stated the relationship between these kinds of products or these kinds of systems and Title 24 is a little bit murky at the moment in terms of reporting and keeping track of that kind of data.

Commissioner Fellman stated that was a question we talked about during the break. I just wanted to get a quick comment from the panelists for us on this, which is that the big upsurge in California in the late 70's and early 80's was because California took a proactive role in regulating requirements for new refrigerators for example.

Mr. Schultz stated for appliances in buildings.

Commissioner Fellman stated and as Elizabeth was referring to and co-generation and other kinds of renewables. We're at a point now where over the past ten years, culminating with the AB 1890 legislation, there was a move to have the market to provide those services. We were retreating from the market model now back to a regulatory model, but the genie is out of the bottle on competition. I was going to ask the panel if they could comment on whether there is a space now for local government to do something that using the incentives, but also requiring that those incentives be used. Not just leaving it to an individual developer, but saying new buildings need to have certain kinds of energy efficiencies built into them.

Mr. Schultz stated, remember in that same era in the early 80's there was a push to encourage local governments and some state assistance was provided by the Energy Commission and others to help local cities and counties develop local ordinances that would go beyond Title 24, which is a state standard. That applied mostly to new construction and quite exclusively new construction. But how do you define new construction has evolved. A lot of those ordinances were passed. There were even some retrofit ordinances. I'm not sure whether the city of San Francisco actually had one of those. I know Berkeley did of course.

Commissioner Fellman stated we did have one when I bought my house in 1983, and it has expired.

Mr. Schultz stated those ordinances were either repealed later or just not enforced. The opportunity is still there now. The point is the city of San Francisco and any city without being a municipal utility or anything else can adopt standards that would basically have the effect of all new homes or small commercial buildings, for example, would have to have a PV system on it or would have to have zero electric load. The technology is there. With a combination of a PV system and a fuel cell, for example, there shouldn't need any new load on the grid with this. That in conjunction with meeting Title 24 efficiency standards shouldn't be that hard. It shouldn't add that much to the cost of the building and the technologies there. That is something that the city can do that goes beyond what state standards would be and you could do that. In other words it wouldn't add to the load grid of this whole area and further aggravate and it would help to contribute to the reduction in the

vulnerabilities that this region would face. All of those buildings that have those kinds of products are isolated from those effects.

Vice-Chairperson McGoldrick asked are there jurisdictions where that's a requirement in some very low density including single-family home levels or two-three unit places?

Mr. Schultz stated those are all possibilities. Those can be done at the state level.

Vice-Chairperson McGoldrick asked, is there any place where it has actually been implemented that you know of?

Mr. Schultz stated not that I am aware of. I think it's under discussion or at least under consideration.

Vice-Chairperson McGoldrick asked, is that under discussion at the CPUC or with building standards?

Mr. Schultz stated there are three ways in which that could occur legally. One is the CEC which governs Title 24 standards that applies to all new... But Title 24 does not apply to new industrial. It applies to basically commercial and residential, including multi-family. The CEC could upgrade the standards that would have the effect of requiring either PV or more on all new residential single-family homes or on all new multi-family homes. They would do it by commercial building type. For each commercial building type, they have different Title 24 standards, but a wide range of them. These new technologies could be there at a statewide level. The state could do that. Or each city or county has the authority to go beyond the state standards, which is a minimum and adopt basically an ordinance that would have that same effect. The other way that that could happen is it could happen through the PUC--the PUC because of its oversight of the investor-owned utilities basically through line extension regulations. Whenever there is a new building built, they have to put a new line in there. There is a cost assessed. The cost for that line extension could reflect or could be changed in such a way that it could become an economic imperative to put in PV systems as opposed to putting in or paying for that kind of... Or they could give a subsidized line extension so the building could have the grid as standby if they put in those things.

Vice-Chairperson McGoldrick asked what would be the likelihood of the last, the CPUC?

Mr. Schultz stated I think both the CEC and the PUC have their hands full for awhile. So if you want to see it happen locally, you might just want to do it.

Vice-Chairperson McGoldrick stated there are a lot of other variable factors and constraints on that that would have to do with everything from housing to at least initial affordability, not duration affordability.

Mr. Schultz stated that these are considerations that should be looked at locally or regionally, not necessarily statewide.

Ms. Lowe stated I just want to comment on the idea of being n essence a distribution channel for incentives that would promote these kinds of technologies or projects. I think there is definitely a role for cities to be that avenue to their areas of influence. We as a Committee have talked to the city of San Jose before about that helping them get incentives out to their customers. They now are trying to get incentives directly from the state that they can allocate to customers. So, there is definitely a role where you all are closer. We have been in the same situation as a company where we are working with the Energy Commission because we are close to food and agricultural customers so we have money that we directly allocate to those customers. I believe you are very well positioned to do that.

Mr. Maynor stated we have no other questions from the public.

Commissioner Ammiano stated I would like to thank the members of the panel for their time and expertise.

Chairperson Gonzalez stated I would like to join Commissioner Ammiano in thanking the invited speakers for coming out today. Mr. Maynor, my thought would be that we would take general public comment and close the meeting. If you could confer with the individual members regarding the next meeting dates informally rather than publicly on the record. We are all interested in continuing to have these hearings, and they have been very productive.

(All presentations are available at the Clerk of the Board's Office, Room 244, City Hall.)

3. Public Comment

No Public comment.

Public Comment closed.

4. Adjournment

The public hearing of the San Francisco Local Agency Formation Commission adjourned at 12:48 p.m.

San Francisco Local Agency Formation Commission

City Hall
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AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

Special Meeting
Friday, April 12, 2002 at 9:00 a.m.
City Hall, Board of Supervisors Chambers, Room 250

Chair: Commissioner Gonzalez
Vice Chair: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall, and Schmeltzer
Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call
2. Approval of Minutes of the Commission Meeting and Public Power Hearing of February 22 2002 and Commission Meeting of March 1, 2002. Action Item.
3. Public Hearing: Discussion and adoption of the proposed SF LAFCo 2002-2003 FISCAL YEAR BUDGET (Government Code Section 56381)
4. Future Agenda Items
5. Public Comment on Items not on the Agenda
6. Adjournment

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IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee Clerk of LAFCo, San Francisco Board of Supervisors, 1, Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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**San Francisco
Local Agency
Formation Commission**

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City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102-4689
Tel. 415.554.7702
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MINUTES

Special Meeting

Friday, April 12, 2002, 9:00 a.m.

City Hall, Board of Supervisors Chambers, Room 250

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick

Members: Commissioners Ammiano, Hall, and Schmeltzer

Alternates: Commissioners Peskin and Fellman

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Vice-Chair McGoldrick at 9:18 a.m.

Members Present: Vice-Chair McGoldrick; Commissioners Ammiano, Hall, and Schmeltzer. Commissioner Fellman was noted present at 9:20 a.m.

Member Absent: Chair Gonzalez

2. Approval of Minutes of the Commission Meeting and Public Power Hearing of February 22, 2002 and Commission Meeting of March 1, 2002. Action Item.

Commissioner Ammiano moved to approve the February 22, 2002 Commission meeting and public power hearing minutes and March 1, 2002 Commission meeting minutes; Commissioner Hall seconded. No public comment, no discussion and no objection.

3. Public Hearing: Discussion and adoption of the proposed SF LAFCo 2002-2003 Fiscal Year Budget (Government Code Section 56381).

Gloria L. Young, Executive Officer stated that the Commission has received a staff annual budget report for adoption as required by the Cortese-Knox-Hertzberg Act.

The budget before the Commission is identical to that approved by the Commission last year in the amount of \$458,750. The funds for San Francisco LAFCo were originally setup as a project fund in an initial amount of \$754,250. The Commission had continued to expend funds out of that original amount of \$754,250 and currently has \$364,444 on reserve. Cortese-Knox-Hertzberg Act requires that the Commission adopt, at a minimum, the same budget amount that it adopted last year, which was \$458,750. Specific findings must be made in order to reduce the budget, and the budget may be increased if necessary. It is the Executive Officer's determination that it is not necessary to increase the budget and recommends approval. She requests that the Commission (1) not affect the budget after its final adoption, which will need a second hearing after a 21-day notice; (2) continue to use the monies in reserve; and (3) request an increase from the Board only if the Commission finds it necessary.

The existing budget amount that can be expended at this time totals \$60,000. We have almost expended the funds associated with outside counsel and have a total of \$20,000 until the end of the fiscal year. She is recommending that when the Commissioners look at proposals from energy consultants at the April 19 meeting, that the Commission determine whether we need to go to the Board to request a release of reserves to enact the energy consultant contract and request a release of \$25,000 to continue the use of legal counsel.

Commissioner Ammiano brought up the issue of hiring outside counsel versus inside counsel at the April 9, 2002 Budget Committee hearing and recommended that the LAFCo discuss this issue. Gloria Young advised the Commission that inside or outside counsel would have to be paid, as discussed by City Attorney, Dennis Herrera at the Budget Committee meeting. The City Attorney's Office does charge back other agencies for their services.

Commissioner McGoldrick asked the Executive Officer the best way to make a comparison of costs by inside versus outside counsel.

Gloria L. Young, Executive Officer stated that it is difficult to make a comparison with the billings from the City Attorney because they provided services from July 1, 2000 to June 30, 2001. They had a number of attorneys that supported the LAFCo effort. The total amount paid to the City Attorney's Office in August of last year was \$153,699. When the Commission hired outside legal counsel in the Fall of last year, a contract amount of \$100,000 was set. The LAFCo would need an amount of \$25,000 to carry it through the remainder of the fiscal year. It could be compared as \$153,699 versus \$125,000.

Commissioner Schmeltzer asked the Executive Officer if she could give the Commissioners who weren't on the Commission in the past a sense of what the outside counsel's legal tasks in the last year were.

Gloria L. Young stated that the LAFCo had a number of major issues that they consulted with outside legal counsel about as follows; (1) the initiation of the contract with E. J. Simpson and relevant issues; (2) PG&E's concern with the contract being awarded to E. J. Simpson; (3) the pursuit and guidance of other energy options that the City could provide; (4) the public hearings that we are currently involved in; (5) strategizing for a plan for the Request for Qualifications (RFQ) for an energy consultant; and (6) ongoing litigation.

Commissioner McGoldrick asked whether the Commission had to initiate a direction today.

Gloria L. Young stated that she would like to go to the Finance Committee when the Commission has an amount that they would be interested in pursuing in hiring an energy consultant. She would also like direction for a release of reserves in the amount she has identified for legal counsel. With respect to the budget process, the Commission will have another hearing where they will adopt a budget in about a month because it has to occur after a 21-day notice.

Donald L. Maynor, Esquire stated that he would be providing an Executive Summary of what the energy consultant report should look like and a timeline of the events for the rest of the year. It is his sense that his role would go away unless the Commission would want to have more public hearings. He might be of assistance in doing a review of the report, but he does not see a need for him to attend LAFCo meetings after the public hearing process.

Gloria L. Young stated that the firm that Nancy Miller, Esquire, represents has provided LAFCo assistance with respect to the Cortese-Knox-Hertzberg law and Don Maynor, Esquire, has been involved with energy-related issues.

Commissioner Schmeltzer asked about the third law firm.

Gloria L. Young stated that Donald Maynor, Esquire partnered with Fred Yanney and his services were used briefly in the beginning. The main support has been from the two attorneys here.

Public Comment

No Public Comment

4. Future Agenda Items

Gloria L. Young stated that the Commission would be receiving evaluation criteria used in interviewing the energy consultants in their April 19th meeting packet. In addition, they would be receiving additional information to assist them in their interviews next Friday. The attorneys will make comments at the April 19th meeting. Gloria L. Young stated that she would not be present at the meeting.

5. Public Comment on Items not on the Agenda

No Public Comment

Public Comment Closed

6. Adjournment

The meeting of the San Francisco Local Agency Formation Commission adjourned at 9:32 a.m.

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**San Francisco
Local Agency
Formation Commission**

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9:30 a.m.
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AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

Special Meeting
Friday, April 12, 2002 at 9:30 a.m.
City Hall, Board of Supervisors Chambers, Room 250

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call
2. San Francisco Local Agency Formation Commission (SFLAFCo) Public Hearing on Electric Service Options.

Morning Session: 9:30 – 12:30 p.m. Representatives of Pacific Gas and Electric Company (PG&E)

Afternoon Session: 1:30 – 3:00 P.M. Representatives of California Public Utilities Commission and The Utilities Reform Network (T.U.R.N.).

3. Public Comment
4. Adjournment

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee Clerk of LAFCo, San Francisco Board of Supervisors, 1, Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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Alternates: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Vice-Chair McGoldrick at 9:35 a.m.

Members Present: Chair Gonzalez was noted present at 9:47 a.m.; Vice-Chair McGoldrick; Commissioner Ammiano, Commissioner Hall, Commissioner Schmeltzer, and Commissioner Fellman.

Members Absent: None

Vice-Chair McGoldrick noted that Gloria L. Young, Executive Officer, Donald Maynor, Esquire, and Nancy Miller, Esquire were present.

2. San Francisco Local Agency Formation Commission (SFLAFCo) Public Hearing on Electric Service Options.

Morning Session: 9:30 – 12:30 p.m. Representatives of Pacific Gas and Electric Company (PG&E).

Donald Maynor, Esquire stated that the two speakers today from PG&E would be answering questions that were prepared for them. One of the questions dealt with the bankruptcy issue and because of the sensitivity of that issue, the legal department prepared a response, a copy of which had been provided to the Commissioners. If the Commissioners have questions on a particular subject that the two speakers are talking about, the speakers agreed to answer the Commission's questions. We'll get started with David Rubin. David Rubin is a director in the Rates and Accounts Services. He has been with PG&E for eleven years. He has a Bachelor of Arts from University of Maryland in Engineering, a Master of Science in Mechanical Engineering from MIT, and he has spent a few years working with the City of San Francisco in City Planning and Bureau of Energy Conservation.

Commissioner Ammiano apologized and stated that Commissioner Hall and he would be leaving in the next twenty minutes in order to attend a Golden Gate Bridge District meeting and then will return. There are three Commissioners here and that would constitute a quorum.

Donald Maynor, Esquire concurred that three Commissioners would constitute a quorum.

Speakers:

David Rubin, Director, Service Analysis, Pacific Gas and Electric Company stated that PG&E appreciates the opportunity to address the Commissioners this morning, to respond to the questions that you have provided so far in writing, and then whatever other questions you would like to bring up in the course of the discussion. What they intend to do is use some overhead material in order to address the questions that you have provided so far. So they will speak to those questions. We estimate approximately 15-20 minutes of discussion time on those points and obviously to the extent that you have questions on our responses, please feel free to bring them up either as we go along or after we've walked through the material. The first slide. What we've done here is put the questions that you have provided to us to the top of the slide and provided some summary points that Mr. Kevin Dasso and I will both speak to. The first question has to do with PG&E's position on community aggregation, specifically whether we support the concept and proposed legislation that would enable community aggregation. The answer in both cases is yes. We support the proposal for cities to be able to aggregate the load of customers within their jurisdiction and to become the default provider of power for those customers. There is a bill that is currently before the legislature now, AB 117 from Member Middien that would enable this concept to take place. It would provide the City with an opportunity to address some of the energy issues. As far as the legislation, as he understands it, it is in the second house in the Senate. He understands it may come up for hearing some time in May and June. He is not sure if there is a particular scheduled date at this point, but we do support the legislation. Next slide: The next

slide gets to a technical issue around aggregation. If San Francisco were to assume the responsibility for power purchases, should it be concerned with the transmission bottlenecking in San Francisco and the fact that there is essentially one large owner of generation in the City? Mr. Dasso will speak to the transmission issue in just a moment. As far as this particular set of circumstances and how it might impact aggregation, as I understand it, there are still a lot of moving parts in terms of what the market design will be going forward. The California ISO is in the process of preparing a market design proposal before the Federal Energy Regulatory Commission. So it is a little bit difficult at this point to speculate exactly what that design will look like and whether that design will have implications for any particular aggregation proposal that the City might develop if the Migden bill would be enacted and signed into law.

Donald Maynor, Esquire asked if Mr. Rubin had a sense of what the general proposal is for California.

David Rubin stated as I understand it, I believe that the ISO is looking at a greater number of so-called zones or nodes that might make them a little bit more geographically specific. Mr. Dasso, please feel free to chime in if you want to amend my comment. To the extent that they are more geographically defined and assuming that the City would then take on the procurement responsibility to the extent that there is a congestion path, and by that meeting, some type of a deficiency in the upstream side of the path. There may be some cost consequences associated with pricing across that zone. That probably covers the extent of my knowledge. Now, I know that the ISO again is developing this proposal that would ultimately need to be approved by the Federal Regulatory Energy Commission. There are still several steps between now and when that is ultimately approved that would govern how this specific design might impact procurement decisions made by the City. The same would hold true with respect to in-City generation.

Commissioner Schmeltzer asked Mr. Rubin if he could give the Commission a better idea of some design features that might signal particular congestion problems for San Francisco versus design features that wouldn't and what you might expect to see.

David Rubin stated the model is, as we understand it is as David mentioned implements more zones than the ISO currently has in its congestion market. The real key issue for San Francisco and other participants in the market would be where those nodes and zones are designated. As of this point, the ISO hasn't identified that specifically. They've really presented a framework and a concept that is generally consistent with one of the ISO's that has been operating fairly effectively in the East Coast. At this point, there really isn't much we can comment on because we don't know the specifics of how those zones are set up. How those zones are drawn would really be the factor that will determine whether there are any cost consequences or congestion issues that could arise.

Donald Maynor, Esquire stated let's assume that the ISO did place San Francisco in a market area or a zone that was deemed to be heavily congested—what is the proposal in terms of rates? Are you talking about transmission costs? That is essentially what the ISO gets involved in. How does that work when you said that there may be some cost consequences under the ISO proposal? Let's assume that you are in a heavily congested zone, how does that work?

David Rubin stated I don't know the details of how they would mitigate that congestion. Right now, actually in the current market design, the ISO runs what they call a congestion model. Essentially, they ask for generators and scheduling coordinators who are scheduling load for their customers to identify where they would like to send and which paths they would like to send that energy across. If they identify any congested paths, they then ask those schedule coordinators and marketers to readjust their schedules. In some cases, that can be done without cost. In other cases, it may require some type of incentive to have those parties readjust their schedule. Again, unfortunately, I am not familiar enough with what the ISO is proposing to know exactly how they would propose to mitigate any of that type of congestion.

Donald Maynor, Esquire stated whether or not you are going to have aggregation, San Francisco would be in the same position whether it was PG&E or if San Francisco were to assume aggregation, bringing power in from the outside, importing it over a path that was congested. And let's assume the FERC would approve some rates that would be high priced in order to encourage the correction of the congestion. Isn't that the idea--to place some higher costs on those congested areas so it generates some monies to improve those areas?

David Rubin stated I will address the first part of the question first which is would there be in fact a difference in the cost responsibility for San Francisco whether it were aggregating or not. My understanding is that, in fact, if PG&E were to continue to procure power, our costs generally are rolled in among all of the customers within our service territory. To the extent that PG&E is still procuring power and to the extent that there are costs associated with the particular congestion path wherever it may reside within the service territory those costs are paid for as part of the distribution rates that all customers pay. What's not clear is whether or not that paradigm would then change under a City procurement model. I guess there is a possibility that it may end up then becoming more of a direct cost responsibility for San Francisco if it were taking on the responsibility for procuring power. But again, that's really speculation at this stage without really knowing more about this specific design proposal.

Mr. Kevin Dasso stated that with respect to the cost and the design, the objective of the design would not necessarily be to increase cost, to address that. It would be to resolve that congestion. In many cases the congestion can be resolved just by changes in schedule and or market participants that are participating there taking those constraints into consideration. They would want to avoid any type of

opportunity to just basically reduce that congestion cost either way. It wouldn't necessarily result in higher costs, but you would have to factor in those constraints into your schedules. Largely, one of the objectives is to encourage more long-term contracts and other types of things that allow you to avoid that congestion ahead of time, as opposed to waiting for it to materialize in the real-time market, which can create havoc.

Vice-Chair McGoldrick pointed out that we are joined by our Chair, Commissioner Matt Gonzalez.

Commissioner Fellman asked, if in your presentation, are you going to address the physical transmission system coming into the Peninsula and some of the inherent constraints from an engineering perspective?

David Rubin stated that is our next question.

Commissioner Fellman stated that she would hold her questions until then.

David Rubin stated that if there are no further questions on this particular response, we will move on to the next question, which in fact does address the transmission system.

Kevin Dasso stated that I would happily take any additional questions if I don't cover it in my remarks here.

Commissioner Schmeltzer asked if you are finished talking about everything you meant to mention on there. I was wondering what other regulatory decisions in particular you were referring to on that slide.

David Rubin stated that as a general matter, there are still decisions that would need to be implemented vis-a-vis how aggregation is actually played out because the bill that would currently enable aggregation, AB 117, still has the Public Utilities Commission making certain decisions vis-a-vis its implementation. So this is more or less a categorical. There are still some other pending decisions that could end up impacting exactly how aggregation would play out within San Francisco.

Commissioner Fellman asked, from PG&E's perspective, can you give us a thumbnail sketch of how you would see aggregation working should this bill pass?

David Rubin stated as I understand the legislation, the City per the bill would have the opportunity, through an ordinance, to implement aggregation on behalf of the citizens of San Francisco. The basic concept of aggregation would be consistent with the direct access rules that were in place up to the point where the Public Utilities Commission suspended direct access as of September 20th. So what that would mean, is that the City would be able to procure power, and the power would be delivered over PG&E's system. And, there are certain rules within various

sections of the Public Utilities Code as well as Public Utilities Commission rules, specifically, Rule 22, that relates to direct access. So City aggregation, as I see it would essentially be a sub-set of direct access. The City, after having passed the ordinance, would then provide notification of its intent to procure power on behalf of the citizens within San Francisco. And the way that the bill was currently drafted, there would be, I believe, at least one notification so that any customer had by receiving advanced notification chose not to have the City become the default supplier of power, they would be able to opt out. There would also be subsequent notifications, I believe, even after the procurement took effect so that customers would still have the opportunity if they so chose, to select PG&E as the default provider of power. But absent any type of affirmative decision by customers, they would then become power procurement customers of the City.

Commissioner Fellman asked what costs would be paid by the City to PG&E under an aggregation program?

David Rubin stated the costs that would be paid to PG&E under an aggregation program would be the costs associated with the delivery of the power from whatever sources the City were to choose to procure power from. There would also be the responsibility to pay the so-called non by-passable charges, which are those associated, for example, with the contracts that we have with qualifying facilities that were negotiated back in the mid to late 1980's, as well as whatever additional cost the Commission might include that are associated with the procurement costs that were incurred over the course of the last eighteen months, most notably by the Department of Water Resources. In fact, there is a Commission proceeding that is ongoing now relating specifically to the direct access customers that were taking direct access as of September 20, 2001, which was when direct access was suspended in terms of what their costs responsibility would be for those procurement costs. And there would also be public purpose program charges that are again a non by-passable charge for all customers.

Donald Maynor, Esquire asked, essentially the costs to the aggregator would be your distribution charge, the ISO charge that would be paid directly to the ISO, and then the non by-passable charges?

David Rubin stated that was correct, distribution, transmission, the public purpose program charges, plus the other non by-passable charges as implemented by the Public Utilities Commission. Onto the next slide which does discuss the transmission issue. I will turn it over to Mr. Dasso to address transmission.

Donald Maynor, Esquire stated that Kevin Dasso is the Director of electric transmission in the Distribution Engineering Department. One of his responsibilities is transmission and distribution system planning, which includes identifying and developing system upgrade and reliability improvement projects. Kevin received a Bachelor of Science degree in electrical engineering from Iowa State University in 1981 and a Master of Science degree in electric engineering from Santa Clara

University in 1991. He is a registered professional electrical engineer in California and he joined PG&E in 1981. He has held various positions in transmission and distribution planning, engineering, operations, maintenance and construction and he has held his current position since November of 1999.

Kevin Dasso stated that by way of introduction, I want to reiterate that PG&E is committed to providing safe, reliable electric service to the citizens of San Francisco. With respect to the distribution system to assure this, PG&E invests about \$50,000,000 annually to maintain and expand its distribution system. In a recent survey that was released by the Salt River project in Phoenix, PG&E's electric service reliability in San Francisco rank in the top 1/3 of thirty major U.S. cities. With respect to transmission, PG&E has invested approximately \$30,000,000 over the last three years and plans to invest another \$27,000,000 over the next two years to expand the transmission system by approximately 200 megawatts. In February of this year, PG&E requested that the California ISO approve the construction of a project called the Jefferson Martin project, which is a major new transmission line coming up the Peninsula, which will expand the transmission system capacity by about 400 megawatts at a cost of approximately \$200,000,000. This project was considered and discussed in the City's draft energy plan, which was recently issued for comment and review. With respect to Hunter's Point, just to reiterate, PG&E is committed to closing Hunter's Point as soon as possible. The timing of that decision would really depend on the California ISO and their valuation of the need for that plant for the reliability of San Francisco and the Bay Area. PG&E believes that the Jefferson Martin project, that we recently requested approval from the ISO, that completion of that project would allow the Hunter's Point power plant to be closed without any adverse impact on the reliability of San Francisco or the northern San Mateo county.

Commissioner Schmeltzer asked, how long is the Jefferson Martin project expected to last—when is it expected to be complete?

Kevin Dasso stated we are currently expecting to have it completed by the fall of 2005. All of that would depend on the permitting process. That project requires a specific permit by the California Public Utilities Commission in order for construction to begin. That process will start with an application that PG&E will file in about September of this year.

Donald Maynor, Esquire asked what the status is with the FERC process on your project. Has it been approved or is it in the approval process?

Kevin Dasso stated that with respect to FERC on transmission expansion projects, they don't actually consider those projects until after they are constructed, so we don't receive any prior approval. However, we generally have assurances that if the expenditures were made prudently and for purposes of benefits of the grid that those costs would be recovered in FERC rates.

Donald Maynor, Esquire, asked if the only regulatory hurdle that you have to go through is the PUC process?

Kevin Dasso stated that is correct.

Commissioner Fellman asked, has that line been discussed in the CPUC's transmission system reliability investigation?

Kevin Dasso stated actually, it has been discussed a couple of times in an investigation that the CPUC has had into transmission, basically the transmission system in California twice. The Commission has elected to allow PG&E to proceed on the schedule and hasn't determined that any additional efforts are needed on their part in order to move that project forward or investigate. We have met recently with, I believe, someone who will be addressing the Commission later this afternoon, Barbara Hale, regarding ways in which we can assure an expedited or just effective and timely permitting process and members of the City staff, the Attorney's Office, and the San Francisco PUC joined us in that discussion.

Commissioner Schmeltzer asked, what is the relationship between the filing of the ISO that you made two months ago, is that right, and the filing of the PUC in the fall?

Kevin Dasso stated that for transmission projects of this type, we have to, under the current tariff that we operate under with the ISO, we have to gain their approval for any type of grid expansion like this. So we have to seek their approval. We are currently assuming and moving under the basis that they will approve the Jefferson Martin project so we are preparing our environmental assessment that we need to file in September. We need to get the ISO's approval, but we are also moving forward on developing all of the environmental work and preparing what's called a "Proponent's Environmental Assessment" that we need to file along with our application for a certificate this Fall at the CPUC.

Commissioner Schmeltzer asked, so you need an approval from the ISO before you can file with the PUC?

Kevin Dasso stated that is correct.

Commissioner Schmeltzer asked, and you expect to get that this summer?

Kevin Dasso stated it's currently on the ISO's agenda for April 25th. We hope that they will consider it and advise us about that project at this time.

Donald Maynor, Esquire asked, is there any objection or opposition to the project?

Kevin Dasso stated at this point, we are not aware of any. Typically, where the real issues begin to come out as you begin to look at the actual routing and the neighborhoods that will be effected and so on, that is beginning now as we are

preparing our environmental assessments. So far, if I could take a step back, the California ISO conducted a transmission planning stakeholders group that was intended to develop a long-term transmission system plan for the San Francisco Peninsula in 1999. That study group worked for about a year in a very open and public forum, sought comments from lots of interested parties, and the recommendation from that study group was to proceed with this Jefferson Martin project. So far, we have not seen any major objections to that; however, oftentimes the objections come in the actual routing of the project.

Donald Maynor, Esquire asked, what is the size of the improvement? What is the current transmission capacity and what will it become as a result of the project?

Kevin Dasso stated that the project will add about 400 megawatts of additional capacity into San Francisco. We also believe that once that 400 megawatts capacity is added, we believe that the Hunter's Point power plant can be shut down without impacting reliability in San Francisco.

Donald Maynor, Esquire asked, is that path the only path importing generation outside of San Francisco?

Kevin Dasso stated actually one of the benefits of the project that we are proposing and one of the things that the stakeholder group saw as a benefit to this project was that in fact it provides an energy path from another source. Currently, the transmission facility serving San Francisco come up essentially parallel Highway 101 from the San Mateo Coyote Point area past the airport and into a substation right on the edge of the City's borders. This project actually starts in a substation near Redwood City and Woodside so it essentially parallels I-280 so we get a second source into San Francisco, which we believe further enhances reliability.

Donald Maynor, Esquire asked, what would be the total capacity of both sources then?

Kevin Dasso stated the transmission system in San Francisco is somewhat unique in that it there is actually a combination of in-city generation and transmission system capacity that you have to consider. The capacity is also driven largely by planning by the next contingency to the loss of one of those transmission elements or generation facility or whatever. So, the actual capacity varies depending on the actual circumstances. But, it is our projection that with the Jefferson Martin project there would be adequate transmission capacity for at least the next five to seven years. Much of that will depend on the load growth here in San Francisco and additional generation or any generation development that occurs here as well.

Donald Maynor, Esquire asked, theoretically, what is the capacity on both the lines recognizing that operationally you may not be able to bring it all in?

Kevin Dasso stated that after the project it would be approximately 1400 megawatts.

Donald Maynor, Esquire asked, with both lines?

Kevin Dasso stated with actually more than two lines. Right now there is one 230,000 volt line that comes up the Peninsula and five 115KB lines that come up. There are actually six lines that are currently serving San Francisco. This would add an additional 230,000-volt line on a different route.

Donald Maynor, Esquire, asked, when you finish the project, who owns the project and how do you get it paid?

Kevin Dasso stated this project would be owned by PG&E and the cost associated with the project would be recovered with rates that are set by the Federal Energy Regulatory Commission and would be paid for by all users of the California ISO grid. Because of the size of this project and because it is a regional project, those costs would be spread across northern and southern California. Projects in excess of 200,000 volts are considered regional projects and therefore recovered by all users, essentially all customers in California.

Donald Maynor, Esquire, asked, so currently the PUC basically spreads the costs system-wide?

Kevin Dasso stated that is correct. In addition to that, for this project, it would actually spread those costs across not just PG&E's customers, but also customers of Southern California Edison and San Diego.

Commissioner Fellman asked, are the costs something that the bankruptcy court would have to approve?

Kevin Dasso stated that would depend on the timing of the project and what PG&E's status is in regards to the bankruptcy court. The current rules with capital expenditures in the bankruptcy court require approval for expenditures in excess of \$50,000,000. However, we are not planning to actually spend large amounts of capital on that project until probably about 2004, and the degree to which the bankruptcy court would be involved in any decisions would be a function of what PG&E's status is at that time. Mr. Dasso asked if there are any other questions on this topic.

David Rubin stated if not, then we can move onto the next slide/question. This next question addresses how electricity will be purchased in the future. In terms of what some of the outcomes are, we have identified really two; there may be others. At least initially, either the City continues to receive a power mix of resources that are available today, which include Hetch Hetchy power for the City load; PG&E procurement which is what I will address in a later slide, which includes generation assets that PG&E owns as well as the qualifying facility contracts. Also included here would be the procurement by the State Department of Water Resources and

then whatever in-city generation there is. Meaning specifically, generation on the customer side of the meter. That is one scenario. The other scenario would be that the City would in fact implement aggregation based on the pending legislation, which would essentially displace the PG&E procurement portion so there would still be Hatch Hatchy power for the City load and whatever onsite generation there is within the City. Under either one of those two scenarios, there probably will be additional on-site generation for customers to choose to put what is called distributed generation on their side of the meter. And so for example, Propositions B and H that enable funding for various types of say renewable projects, would produce additional generation on site. In that regard, PG&E did voice support for those propositions. We have been working over the course of the last two to three years as part of a Public Utilities Commission and California Energy Commission process to streamline the interconnection rules, meaning the rules that govern how our system interconnects with generators on the customer side of the meter. And we also make available financial incentives for different types of clean distributed generation projects that were provided under AB 970 from a couple of years ago. So, through our service territory we spent about \$60,000,000 a year over the next four years as financial incentives for various types of distributed generation projects. There are additional funds that are made available by for example, the California Energy Commission and the California Power Authority is now looking at spending money for different types of distributed generation projects. So, we anticipate and we have seen over the course of the last year an increase in the number of projects that customers are installing on their side of the meter. Obviously, all of the things being equal, on site generation would then reduce the amount that has to be procured from other sources.

Commissioner Schmeltzer asked, could you tell us what AB 970 monies PG&E has used so far and what is left?

David Rubin stated the AB 970 money is provided statewide \$125,000,000 a year for the next four years. Actually, AB 970 provided the authority for the Commission to then implement and the Public Utilities Commission then issued a decision that provided those amounts. Of that \$125,000,000, \$60,000,000 is spent by PG&E. So that's \$60,000,000 for four years. As I understand it so far, and this was put into place I believe in June of last year, we've provided funding or at least approval for funding for about \$45,000,000 worth of projects in our service territory. I believe there had been four applications in San Francisco that have received funding of approximately \$2,000,000 representing about 2 ½ megawatts of on-site generation so far.

Commissioner Schmeltzer asked, what types of generation?

David Rubin stated they fall into three different so-called tiers of funding, and the tiers differ according to the dollar per kilowatt that could be provided per project as well as the total cap on the project. So, I may be a little bit off on the facts. But generally speaking the tier, I believe is three projects, which are the top tier receive

\$4.50 per watt or \$4500 per kilowatt up to 50 percent of the cost of the project. I can get more details on this program that provide the precise numbers. I am providing this off the top of my head. These would be renewable projects, generally solar projects, wind projects. I believe fuel cells using renewable fuels fit within this category as well. The second tier would be fuel cells not using renewable fuels, meaning using natural gas and they receive up to \$2500 a kilowatt and I believe roughly up to 40 percent of the project cost. Then the last tier would be different types of say combustion turbine, micro-turbines, internal combustion engine projects that use waste heat recovery. So these are really meant to induce different types of clean technologies, either renewables or projects operating in a combined heat and power mode. The project size I believe is limited to 1 to 1½ megawatts maximum size per project.

Commissioner Schmeltzer asked, so the four applications in San Francisco, do you know which tiers they fell into or is this too much detail?

David Rubin asked, you mean which categories they fell into?

Commissioner Schmeltzer asked, were those Tier 1?

David Rubin stated I believe one was a fuel cell and I believe the other three were internal combustion engines.

Donald Maynor, Esquire stated that we had some speakers at our last public hearing that talked on distributed generation, energy efficiency. And one of the things that they all spoke on was the need for audits to find out what the potential was in a San Francisco. For example, does PG&E have an ongoing audit program to find out potential co-generation users? If not, is this 970 money that you spoke about, is that available for San Francisco to perform those types of audits to try and find out what the potential might be?

David Rubin stated my understanding is that the monies, that at least I have discussed here so far, which are provided under a particular sub-section of AB 970; unfortunately, I cannot remember the exact subsection. AB 970 actually provided a lot. I am referring to a particular program element of 970 and those monies again, per the Public Utilities Commission decision, were really meant to provide financial inducements for specific projects. Now there is some amount of the \$60,000,000 that is set aside to do audits of or measurement evaluation of the projects that are installed under the program. In terms of actually stepping back and trying to ascertain what the potential penetration for distributed generation in San Francisco is, I don't believe those monies would be usable for that purpose. That having been said, and I will confess I am not familiar with the details. There may be other provisions under the AB 970 that are available. For example, as I will speak to in a later slide, I believe the City received monies that the Public Utilities Commission dispersed that were made available essentially per AB 970 for different types of energy efficiency projects. So, I know that AB 970 provided a wide range of different

types of programs to help again for purposes of increasing the efficiency of energy use or increasing the amount of distributed generation. I am going off on a whim to speculate that there may be some authority under that bill perhaps to provide that type of evaluation.

Donald Maynor, Esquire asked, you don't have an ongoing audit program that performs that kind of audit work?

David Rubin stated when you refer to audit, what I tend to think of as audit is actually auditing the results of programs that are put in place, which would be a somewhat different function than evaluating what the penetration possibilities are.

Donald Maynor, Esquire stated that I may have used the wrong word, but you do not have a program that does that analysis of the potential in San Francisco, for example.

David Rubin stated I would need to confirm my understanding. There may have been some of that work that was done when we were given the authority to go ahead and spend these monies. I know that generally speaking we have made information available across the service territory that these dollars are available. I don't know whether in fact before having done that we did any market assessment, which I think is probably what you are referring to.

Chair Gonzalez asked, I want to back up and ask you perhaps to give me a little bit of the context for how we can do things in the future with how things were done in the past. Specifically, I am wondering if you could kind of break down for me how PG&E's role in this business has changed once deregulation happened.

David Rubin asked, role in the power procurement business specifically?

Chair Gonzalez stated also any other issue that you think was significant related to deregulation.

David Rubin stated stepping back our obligation had been for a hundred years before 1995 or really 1998 had been to invest in generation facilities. Now obviously the transmission distribution obligations remain, but the Commission started a process back in 1992 continued it up until 1995 to look at getting utilities out of the business for being responsible for power generation. Up until that point we had an obligation to plan for and make investment or procurement decisions to serve all the load within our service territory. As part of the Public Utilities Commission process, they were looking at different industry models and ultimately in late 1995 issued a decision that provided for us to get out of that business. So we were provided as part of the Commission's policy decision, the transition period to have us step back out of the role and have independent providers step in. And that process really you can sort of argue began back in 1978 with the Public Utility Regulatory Policy Act, a federal law that provided independent power producers an opportunity to sell power

to utilities. As a consequence of that law as it was implemented in California, quite a bit of our power portfolio was then provided by independent producers qualifying facilities selling power to us under various types of long-term contracts.

Chair Gonzalez asked, what was the primary rationale for believing that this was necessary?

David Rubin stated as I understand, I was away from PG&E and away from the country during the period when this all began. It was driven by a concern that rates in California were higher than in any other parts of the country. One of the reasons was that regulation was the cause, that regulatory system was in some way shape or form broken. By providing a competitive market opportunity to replace regulation for generation, we would end up seeing additional services and lower prices. That is my understanding of what prompted the Commission to move down this path.

Chair Gonzalez stated that when you say that though the idea of getting the utilities out of generation was that the effect or was that the purpose? In other words, was it simply to allow for independent providers who could come in and also engage in the act of generation, or was it mandating that you not be involved in that?

David Rubin stated it was both an opportunity for independent providers to provide power, and it was also through the various provisions of the policy decision a desire to have us divest power plants and not build new ones. So, there were both pieces to it. They were opening the market to independent power providers to then develop generation plants and really giving us very strong signals that we were to divest ours and not construct new ones. And also as I will get to in a minute in the explanation, not engage in long-term contracting to procure power. So not only not build new power plants, but also not continue the responsibility of contracting long for power.

Chair Gonzalez asked I take it PG&E was in favor of this?

David Rubin stated no we were not. In fact we filed for an application for rehearing on the Commission's policy decision that was issued in late 1995.

Chair Gonzalez asked, from the point of your industry though, wouldn't this take out the greatest risk component to what it was that you were engaged in? Doesn't it relegate essentially to being concerned with transmission?

David Rubin stated I can't really speak to whether it would take out the greatest risk component of our business because the business was at that point and time regulated on a cost of service basis. There were always risks. Our rate of return was set based on the risk profile of the business. But, I don't know that generation necessarily presented any greater or lesser risk than any part of the business. But certainly to the extent that we would no longer be in generation then it would have narrowed the focus of what our business model would remain which was transmission and distribution.

Chair Gonzalez asked, now the opposition that you had to this proposal was it based on the fact that you would be participating in less components of the market, or what was the argument that you put out?

David Rubin stated I have to go back and review exactly what the elements of our objection were. We just didn't believe that the Commission's proposal was a workable one and or work for us. I just don't have a full recall of exactly all the pieces of our objection--but we did object. With the Commission's policy decision and then subsequently the legislature passed a bill AB 1890, that codified some elements of the Commission's plan, changed a few elements of it, but by and large kept the major pieces intact. We did, by the way, support AB 1890. The reasoning behind our support for AB 1890, as opposed to the Public Utilities Commission decision, was really a recognition that something was going to happen whether we fought it or not, and that AB 1890 represented a better balance of some of the elements than the Commission's policy decision. That bill was passed in the Summer Fall of 1996, signed into law. At that point, the market opened in 1998. What was provided again by the Commission's policy decision, as modified by AB 1890 was a transition period for the utilities to have the opportunity to recover the costs associated with the power plants that we had built prior to the rules having changed. So it gave us a chance to accelerate the depreciation of those plants and again, really transition from a regulated cost of service obligation to serve model by the utilities, to one where customers would be able to buy power from whomever they chose. We were really stepping backwards out of that business. As I mentioned, AB 1890 changed some things but, quite a few things that were part of the market structure were in the Commission's policy decision. The strong encouragement for us to divest our power plants was from the policy decision. The requirement that we sell all of whatever power we continued to generate and buy all of the power that we needed from the spot market was from the Commission's policy decision. What AB 1890 did is shorten the transition period essentially and provided some other changes, provided the statutory authority for setting up the power exchange in the ISO. So that set in motion again the work toward restructuring the market place that was then ultimately put into place in January of 1998 and ultimately then delayed until March 1998. So, from that point forward, our role was to again step backwards out of the generation business and to be essentially a provider of last resort for our customers by buying power out of this spot market. I can at that point fast-forward to what happened during the crisis, which was that the wholesale prices in the spot market went way out of control. We did over the course of the years request on numerous occasions the opportunity to procure power through longer-term contracts so that we could hedge the risk that is associated with buying all of your power out of the short-term spot market. We weren't really granted that authority until August of 2000, and even then and up until today, we still haven't gotten any standards of reasonableness around our ability to buy power on a bilateral basis to hedge the price risk that was associated with the spot market. Nonetheless, we did in fact lock into a number of contracts in the fall of 2000, but as I mentioned even to this point today, the Commission hasn't implemented rules

around how those types of procurement decisions would be judged. There is a proceeding that is ongoing before the Public Utilities Commission today to look at procurement rules now for utility procurement. I am happy to answer other questions. I think everybody knows then what happened as a consequence of those high prices. We were locked into frozen retail rates, were not provided the opportunity to pass the costs along associated with the wholesale power market, and incurred a fairly significant nine-billion dollar under recovery of costs, which led us to then pursue bankruptcy as a means by which we could try to resolve this problem. So I do not know if that provides the context that you were looking for or if there's more.

Chair Gonzalez stated yes, and I thank you for that. To what extent is the effort to get out from under direct access almost like going back to the let's say the opportunity that deregulation provided, but with the very clear message to municipalities and anybody else that is interested, that they should be in the business of trying to arrange long-term contracts?

David Rubin stated when you refer to direct access, do you mean the aggregation proposal that we discussed earlier?

Chair Gonzalez stated, yes.

David Rubin stated we recognize that San Francisco and other cities within our area in fact would like to at least explore the possibility of taking on the obligation of buying power. From our perspective, we welcome that opportunity to the extent that cities want to take that obligation and risk on. We feel that the rules should be put in place in order to allow cities to make that choice. Our company's position has really been continuing to be supportive of customer choice in this area.

Chair Gonzalez stated let me ask you in a different way--maybe that didn't make sense. Presumably, when the market opened up, and you no longer had anybody that was responsible for let's say long-term planning, right, the whole business of building new generation and trying to make investments with the thought of what the demand would be sometime in the future. I mean I suppose that there is risk involved in that. To the extent that deregulation takes you out of that process when the market opened up, what prohibitions were there in place that would not allow a municipality or anybody else that was interested from aggregation at that moment?

David Rubin stated cities could aggregate according to the way that the direct access rules were put into place. What is different about the proposal that is in the Migden legislation, is that the manner in which cities could aggregate prior to that new proposal is that they would need to go door to door. They could aggregate customers within their area, but they could do so by positive election in. The proposals that are part of AB 117 would really reverse that in a way, so that essentially the City would become the default provider of power unless a customer chose not to be part. So, the direct access rules that were put into place back in

1998 would have allowed a City to aggregate, and some cities did go forward with proposals. I believe San Francisco was one of them and Palm Springs was another. But the issue was you needed to then get customers to affirmatively sign up, which is a costly and time-consuming process. The proposal in the form of AB 117 would reduce those transaction costs very significantly. Does that get to your question?

Chair Gonzalez stated, yes it does. I am just sitting here reflecting. I think when the pitfalls of deregulation happened and everybody looked around and tried to figure out, how did we get here, what should we do in response to that? There emerged a lot of different definitions of what public power was, and how that could be implemented and what benefits a city would get with public power. I think in a lot of ways the current discussion around aggregation and the ability of the City to engage in that and because a municipality would be taking their future into their own hands, that somehow this is giving power to the people, and this is public power. To me, it just seems we are imposing a concept that meant something very different let's say, even a decade ago and pushing it to fit into our repair of deregulation. While that may be good because we need a repair for this particular thing, I'm not sure that it seems to me to a certain extent a distraction from the greater issue out there which is, we've heard from representatives in different municipalities that obviously have different systems where they have greater ownership. Ultimately, that's the bottom line, and I appreciate the remarks you are making. I appreciate that you have come here. When I hear that you are investing quite a bit of money yearly in distribution, transmission, and you've got plans for generation now even post deregulation as part of the repair. I mean I think that's all good, but it seems to me, and I am saying this more for my colleagues than for you. I don't want to be totally distracted from those other issues because even with this kind of repair we end up in a situation where you are still paying somebody else to do something that, depending on what the investment is and the cost of maintaining transmission lines or what have you, that's where it would seem to me would be the largest place for savings in the process. We know that because that is where industry is able to make a profit and continue what it is that it does. I don't know if I am making sense. You don't have to respond to that, Mr. Rubin. Let me ask you this seriously. Just to lay out a point. Presumably a City could get engaged in an aggregation and save money at it because we are not going to be at the whim of the spot market and we're going to get to take our destiny in our own hands I suppose. That appears to be the public power model that is out on the table right now in the public discourse. Am I missing something?

David Rubin stated I think that is part of what is on the table. There is quite a bit of discourse as you are well aware on public power issues, and I don't think anybody is necessarily, at least from my perspective, thinking that this is somehow taking center stage. It is an option that is available or at least will be available if the bill passes.

Chair Gonzalez stated well, I am thinking of the way the press responded to some of the initial overtures in couching this as public power and we're moving forward and the city is going to play a larger role and wow, PG&E is actually supportive of this

larger role. It just seems to me that that larger role that we are all talking about is really a repair to this disaster that happened. While there may be public participation in the repair and public control and decision making related to that, it is a very different discussion than what the public power discussions were prior to that, which were really about explain to us why the City has Hatch Hatchy, and has the ability to create generation and invest in that, and try to meet our own demands? What are the pitfalls of doing that? Why is there an argument that PG&E does that better than we can do it? When we hear from municipalities, certainly they are different, they have different needs; they have different problems what have you. Nevertheless, certain models have managed to work for those municipalities, and I think that is what ultimately I see as more of a discussion of what public power is. You would agree with me that that was the way the discourse was centered in the past?

David Rubin stated correct in the past the discourse at least prior to deregulation of the power market, was always focused on either an investor owned utility or a publicly owned utility for everything.

Donald Maynor, Esquire stated I had some questions concerning PG&E's current ability to engage in procurement. You indicated there were some limitations that you are going through in a proceeding at the PUC. Obviously with the end of direct access and PG&E's financial problems, do you have current limitations on your engaging in procurement now, and what is going on at the PUC with that process? What are you asking for at the PUC in terms of allowing you to be in the procurement business in a functional way?

David Rubin stated I have a slide that partly speaks to that but I am happy to just go ahead and answer the question now.

Donald Maynor, Esquire stated if you want to answer that now, that's fine. I had another question on the investment and distribution system, the \$50,000,000. How much of that or any of it is related to under-grounding of utilities?

Kevin Dasso stated that about 8,000,000 million of that is related to underground utilities.

Donald Maynor, Esquire stated you can answer the other question later if you would like.

David Rubin stated you know it's not much further behind. If you don't mind, we'll move right through and I'll get to in probably five minutes or less.

Vice-Chair McGoldrick asked, that \$8,000,000 for under grounding, has that been put in abeyance? Have you suspended your under grounding operation?

Kevin Dasso stated no, actually that's moving forward.

Vice-Chair McGoldrick stated and you are moving forward at the same rate that you were moving forward prior to the energy crisis, well your bankruptcy of course above all?

Kevin Dasso stated I would say actually immediately prior to the bankruptcy filing, we are actually moving at a faster rate than we were at that time.

Vice-Chair McGoldrick stated and you are only speaking about San Francisco?

Kevin Dasso stated that is correct.

David Rubin stated that the next slide addresses the energy efficiency programs that we offer and the extent to which the City is taking advantage of those programs. What I have identified on this slide is the fact that in fact San Franciscans are taking advantage of our programs in a way that actually exceeds in these various program categories the amount of funds that the citizens within San Francisco were contributing to the funding. Roughly speaking, about six percent of the total public purpose-program funds are provided by citizens of San Francisco. That is on a system service-territory wide basis. Through those funds, we provide a number of different types of energy efficiency programs, which involve for example, rebates for different types of investments in energy efficiency, different types of energy efficiency management services, for example audits and information. Then last year in particular we really upped the money that was available for more efficient refrigerators pursuant to SBX5, which was a piece of legislation passed last year. Even though San Franciscans generate again about six percent of the total funds for these programs, they benefit to the tune of about seven to eight percent, depending on the category. If you just simply look at the amount that San Franciscans pay in to the amount that San Franciscans pay out, they actually get more out than in. Now that's not to say there is still additional room for customers to avail themselves of our programs even more fully. In that regard, we are working with the City, and I believe the Department of Environment and others on the monies that San Francisco received that were dispersed by the Public Utilities Commission pursuant to the same bill that we discussed earlier, AB 970. Where I believe the City got funding in the range of about eight to ten million dollars. The monies are going to be used for various types of lighting strategies for small businesses. We are working very closely with the City and looking for ways to implement that program.

Commissioner Schmeltzer asked, do you have a sense of what the participation rate is in San Francisco compared to other parts of your service area?

David Rubin stated generally speaking, San Franciscans contribute about six percent from the total monies and across these program categories, benefit to the tune of about seven to eight percent depending on the category.

Commissioner Schmeltzer asked, when you say six percent, is that six percent of the total funds or six percent of the eligible customers?

David Rubin stated it is six percent of the total public purpose program funds that emanate from San Francisco. About seven to eight percent actually flow back to San Francisco across our service territory.

Donald Maynor, Esquire asked, is there an outreach program, again I called it the audit, but again we were getting this testimony last time? It just sounded like they were all suggesting that for these programs, to maximize their efficiency, you need to actually actively go out and investigate what the potential is. More than simply having the programs available or on the Internet, there needs to be more of an active program to fully take advantage of it.

David Rubin stated and maybe I misunderstood but the last time you used that same term. With regard to energy efficiency, we do engage in active outreach throughout our service territory in the form of different types of information and campaigns that are provided, as well as soliciting input from customers on what types of programs they would like to see.

Donald Maynor, Esquire asked, what about going out and visiting facilities? That's why you use an energy audit where they go in and look at a building because the owner may not even recognize what they are capable of doing to achieve energy efficiency. In this facility, you could say, if you did the following things you could save the following amounts of monies. Is that kind of a program useful? Is that something that you do now? Or is it always initiated by the customer?

David Rubin stated the energy management services category really includes things like audits of different types of facilities. We actually both initiate those types of suggestions for customers. When we get calls from customers at our call centers, depending on the issue, we usually suggest that there are ways that they can save energy, and look for those types of opportunities. So it takes place at a number of different levels for a number of different types of customers. Generally, there is a very proactive outreach opportunity because quite often, and I can certainly speak for myself, customers aren't always fully aware of what types of opportunities may be available for them to save energy and in some cases through just simply a change in practice. In some cases, by putting in some relatively low-cost types of items in their homes or their offices in order to save electricity and natural gas as well.

Donald Maynor, Esquire asked, does PG&E have any suggestions to local governments in terms of using their police power in adopting local ordinances, building codes to improve in energy efficiency? We have heard some discussion about that as well.

David Rubin stated it is my understanding that we do in fact work with other agencies, for example, the California Energy Commission, that has, and I am not sure whether you had somebody from the CEC at your last hearing or not. But at least based on my past knowledge, the CEC has been involved in helping cities, for

example, put various types of local building codes into place that would make sure that buildings that are either built new or remodeled actually have energy efficiency devices. In fact when I worked for the City, again this goes back to the mid-1980's with the Bureau of Energy Conservation, that was one of the jobs that I had. PG&E has been a participant in those types of activities.

Donald Maynor, Esquire stated one of the comments that was made was that it is necessary to get information from the utilities to find out what the effects may be. Particularly, when the prices were exceptionally high, what was working, what wasn't working? Which sectors were actually conserving energy? That sort of thing. For PG&E, a lot of this information is confidential because it is customer related, but it is essential for purposes of knowing what is effective. Have you had discussions with the Energy Commission in terms of doing studies to get a better sense? For example, in San Francisco what worked, which sectors were actively involved in conservation? What programs were most effective? How detailed does your analysis go in the energy efficiency area?

David Rubin stated that is a good question. I don't have an answer for you. I am happy to get an answer for you. I know that there have been efforts looking back at how successful the overall statewide response to the energy crisis last year was, and I believe that has been led by the California Energy Commission. The numbers are impressive. In a later slide, I was going to make the point that in terms of what we are doing to try to make sure, for example this summer, is equally as successful as the last one. Clearly, conservation by customers was the big winner last year. We're hoping that that type of conservation ethic stays with us all, this coming year in particular. Other questions on this slide? Move to the next one.

David Rubin stated which gets back to the question regarding the power procurement issue. Just in terms of whether we are still in the generation business or the power purchase business, the portfolio of power that is currently provided to customers, generally speaking across the service territory, includes approximately 40 percent of the total needs that are met by the generation assets that we still own in nuclear and hydro. Approximately 25 percent from contracts that we have with qualifying facilities, the ones that I mentioned earlier. And the remaining amounts come from the Department of Water Resources, which was put into the power procurement business through ABX1 from January of last year. Now, pending events will resume power procurement. I am not supposed to discuss obviously our bankruptcy. But, at least in so far as answering this question is concerned, we need to be able to be financially able to buy power. That was the issue that really brought the state to the power procurement table in the first place was that we were no longer creditworthy and could not continue to buy power because of the financial pressures from the power crisis. There is a Commission proceeding at this point that is looking at the rules under which that future power procurement will be carried out. So, assuming various hypotheticals around our restoration to creditworthy status, and the Commission's following through, with what I will argue which should have been done quite a while ago, which is to put in place standards around the

means by which these various investment or procurement decisions will be judged, so that we are not making decisions and then finding the rules around the judgement terms at a later point. We're assuming that we will be stepping back into that role.

Donald Maynor, Esquire stated what would the alternative be? If you are not given procurement authority and you can see here there's a need to purchase power in the future, what are the options that the PUC is considering in its procurement proceeding other than to turn back that procurement responsibility to PG&E?

David Rubin stated I am not intimately familiar with the details of the proceeding. I know that it is ongoing in what it is designed to do. In terms of what the options are to the extent that we are not able to step back, we need to be mindful of the fact that at least in so far as today's supply and demand situation is concerned, as you see before you on this slide, we really almost have a full portfolio in terms of what we still generate, what we buy from qualifying facilities, and then what the state has stepped in to buy through its contracting. Now as you all know from the press, the state is looking at renegotiating some of the contracts that it has with suppliers, that to the extent that there is in fact renegotiations may well change the overall supply and demand balance. The state really has up until the end of this year to continue to make procurement decisions. It would still continue to hold whatever contract its' executed after the end of this year. But you can certainly speculate that if the two pieces don't come together, meaning we're not in the position to step back and buy power and the state's authority to do that runs out, either the legislature would need to go back and extend the state's authority or something would need to happen for at least the margin of power that would still need to be purchased. Given the fact that again the state did buy a fair amount of power through its contracting. As you may well recall from some press reports was in a position of having to sell surplus power during certain hours last year.

Commissioner Fellman stated Mr. Maynor, I suggest we ask Barbara Hale from the CPUC that same question. In fact, PG&E tried to move the process forward by filing testimony in advance of a Commission order requesting it because the authority for procurement does run out at the end of the year. I have a question. I know you are not supposed to discuss the bankruptcy. You are telling us that you still have your hydro and nuclear facility as 40 percent of your power. However, in the bankruptcy proceeding you are proposing to divest those resources and place them under your PG&E corps federally regulated subsidiaries. Is that correct?

David Rubin stated with all due respect, I can certainly provide the answer. I have just been advised by counsel not to address the bankruptcy specifically. We are happy to provide a response back in writing.

Donald Maynor, Esquire stated that was our agreement with legal counsel to stay away from issues relating to the bankruptcy.

Commissioner Fellman stated the one thing that I think we need to look at in terms of our Commission is going forward. When we're weighing the risk of having potential City and County aggregation versus PG&E procurement, that I think it's a matter of public record that PG&E is proposing or has proposed to transfer at these remaining assets within its state-regulated utility to the federally-regulated affiliate in the corporation.

Donald Maynor, Esquire stated I am not suggesting that we shouldn't get answers to those questions, but the agreement was that these gentlemen wouldn't provide the answers. My suggestion would be if we have questions like that, you can provide them to me, and then we'll submit those questions to legal counsel and PG&E will provide answers to those questions.

Commissioner Schmeltzer stated and I guess we can provide them to you in writing. But just so the folks here can hear what the question in some form will be and we understand that you can't respond.

David Rubin stated I appreciate that and don't mean to be an obstacle to getting an answer to you. I just had it prearranged, but we will provide you with a very speedy response.

Commissioner Fellman stated I was just probing how far that could go with respect to what was already in the public record.

David Rubin stated I appreciate that. I'm just not on real solid ground myself to know how far we can venture down that path.

Commissioner Fellman stated Mr. Fallin's letter was vague at best in terms of what it entailed.

Commissioner Schmeltzer stated but adding to what Commissioner Fellman just asked, the question is if PG&E regulated by the state-regulated entity then would have no substantial generation assets. If this is accurate that it's been proposed that the Diablo and the hydro facilities would be transferred to the non-state regulated corporate entity, then as far as the City trying to aggregate to obtain power versus PG&E providing that power could essentially be in the same position. That would be the question to ask.

David Rubin stated I think I can answer that and stay clear of whatever I need to stay clear of. The plan of reorganization that we filed does propose a 12-year contract between this newly created entity that would own the Diablo and Hydro assets and PG&E. So PG&E the remaining retail gas and electric distribution business would buy the power output from the nuclear and hydro facilities and provide that to customers. Insofar as aggregation is concerned getting back to your question, the difference between our current bundled utility ownership of those

assets today versus the proposal in the plan of reorganization wouldn't have any consequences.

Commissioner Fellman asked do you know if that contract had a specific price?

David Rubin stated yes, it is.

Commissioner Fellman asked is that price public?

David Rubin stated yes, it is.

Commissioner Schmeltzer asked and you can tell us that price or the written responses can tell us?

David Rubin stated I think this is safe. It starts at 4 1/2 cents in 2003. It averages 5.1 cent per kilowatt-hour over the twelve-year life.

Commissioner Schmeltzer asked and that's for both Hydro and Diablo?

David Rubin stated it is for the collective grouping of assets.

Commissioner Fellman stated we can get that clarified. I think that's for all of the PG&E, whatever it would be Genco assets.

David Rubin stated that's correct.

Commissioner Fellman stated there may be something other than just Diablo and the other hydro facilities.

David Rubin stated its Diablo and Hydro. The hydro includes the assets we own plus certain contracts that we have with certain irrigation districts under the so-called partnership contracts.

Donald Maynor, Esquire stated you had mentioned in 1998 there was a CPUC decision to accelerate depreciation in what I used to call stranded investments. They came up with another name. Is that finished? Is this stranded investment charge gone now?

David Rubin stated the stranded investment charge, as it was set up as part of the Commission's policy decision and then subsequently AB 1890, would allow for the opportunity to recover PG&E's past investments in power facilities as well as the ongoing costs associated with the qualifying facility contracts. Now that latter part in particular was an ongoing charge that I believe the last contract we have with qualifying facilities runs out in 2025. It was meant to tail off over time as more and more of those contracts expired. In terms of whether it is all finished, that might be an appropriate question as well for the PUC. At this point, it's not entirely clear

exactly how all of the various accounting things that were put into place and then subsequently modified about a year ago by the Commission will all have played out.

Donald Maynor, Esquire stated and you generally view that as one of those non bypassable charges if the City were to be involved in aggregation?

David Rubin stated that is correct. Any other questions on this slide or should we move on to the next one?

Commissioner Fellman stated I have a related question. I didn't see it anywhere in your presentation so I could hold it until the end or can ask it now. It relates to the issues of procurement by the City in the event it elects to do aggregation.

David Rubin stated I am happy to entertain that now.

Commissioner Fellman stated right now the City and County of San Francisco delivers Hetch Hetchy power through the PG&E system to the City and County of San Francisco. Is that correct?

David Rubin stated to the City and County loads.

Commissioner Fellman asked where does that come into the PG&E system?

David Rubin stated I believe the Newark substation, is that correct?

Kevin Dasso stated I don't know.

David Rubin stated I think it is delivered by Hetch Hetchy transmission facilities to Newark.

Kevin Dasso stated that Newark is located in the East Bay very near the Dumbarton Bridge.

Commissioner Fellman asked if we were to develop in-City generation that would be, and this is something that has been discussed in the Energy Plan and has been discussed through the implementation of our propositions as well. If we were to have in-City generation that would go beyond on-site customer type generation, how would that get to our customers if we were an aggregator? How would that get to the citizens? Would it have to go back through Hayward or would we have a new interconnection with PG&E?

Kevin Dasso stated well electrically, it would be interconnected wherever the nearest point of interconnection would be depending on the size of the generation. It could be interconnected in the distribution system, essentially right outside of the site. If it is a larger size generation it needs interconnect with the transmission system, it would be to the nearest point of interconnection with the transmission system. In

fact, last week we met with members of the San Francisco PUC talking about the Energy Plan. One of the projects that was contemplated was an interconnection at PG&E's Mission Substation, which is at the corner of 8th and Mission for a 50 megawatt generation project linked to the company that provides steam service here in San Francisco. We are currently talking with them about how and where we would go about interconnecting that facility. The size of that project would require a transmission interconnection. We are not certain whether that project and it really is a function of how the City and its developer wants to pursue it, is to whether that is a merchant project that will be interconnected under normal merchant FERC-regulated tariffs, or whether that would be a facility that would be under contract with the City and County of San Francisco and would be subject to the City and County of San Francisco's interconnection agreement with PG&E. Those are things that we discussed briefly and those are things that the City would have to take a look at and advise us as to how they prefer to pursue that. Electrically, it would be to the nearest point of interconnection with PG&E's system. For a merchant project, we are obligated under FERC regulation to interconnect those projects to our transmission system and provide them transmission service.

Commissioner Fellman asked if it wasn't' a merchant project, would you still have obligation to interconnect?

Kevin Dasso stated I believe we would. It's just the question of which agreements it would be applicable to. Would it be under the interconnection agreement that PG&E already has with the City and County of San Francisco? Would it be an amendment to that or is it already envisioned under that agreement? Or would it be a separate general tariff service interconnection? Those are both possibilities. It would really depend on whether the City was--as he understands it today the interconnection agreement covers serving City and County load. To the extent that a generator was being interconnected to provide service for City and County load, then it could logically be interconnected under that interconnection agreement if it were providing service for an aggregation. I am not sure how that works. But you certainly would not have to build facilities back to Newark Substation to interconnect.

Commissioner Fellman asked what about the costing provisions? Would it make a difference whether it was at the Mission Station or it was under the interconnect agreement with the delivery at Newark?

Kevin Dasso stated I don't know.

Donald Maynor, Esquire stated we are allowed to ask unusual questions. One of the questions that was raised at one of our meetings was why couldn't you put a transmission line in the Bay? Has PG&E ever considered doing that and avoiding all of the costs of right of way and other kinds of problems?

Kevin Dasso stated I mentioned earlier the stakeholder group that met to look at the long term transmission system upgrades or supply to San Francisco that the ISO ran

about two years ago, they did consider a new 230,000 volt line from the East Bay. They looked at various options associated with that. The general conclusion, although detailed engineering and land acquisition procurement siting were heading up and done, the general conclusion was that the cost would be substantially higher than the Jefferson Martin project and would very well likely take a substantially longer time to do that. Essentially, the nearest source for the type of capacity would be necessary is over in the city of Moraga. So you would have to construct facilities all the way from Moraga to the edge of the Bay and then across the Bay to PG&E's Potrero Substation. It is a substantial undertaking. I think we counted about 35 separate federal, state and local agencies that would have to be involved in the permitting.

Donald Maynor, Esquire stated I was thinking of going from Newark to San Francisco and you mentioned going across the Dumbarton Bridge. Perhaps that is where the thought came in.

Kevin Dasso stated actually, currently PG&E has substantial overhead facilities that cross the Bay today and those could be upgraded at a much lower cost than any kind of a new Bay cable crossing or one that was considered by that study group. However, those terminate at a substation in San Mateo.

Donald Maynor, Esquire stated so you would still have the bottleneck problem of bringing it in as opposed to going from say directly from Newark to San Francisco avoiding the bottleneck.

Kevin Dasso stated you would have to get it from Newark all the way to San Francisco. The study group looked at a new line from the San Mateo Substation, which is where those existing lines feed to from there into the City. The general conclusion was that rather than continue to add to that Substation's capacity, a better plan would be to devise a completely separate route and hence, the Jefferson Martin project. Essentially, to get from Newark into San Francisco, you would have to go to the San Mateo Substation. A better route would be to come the other direction.

Donald Maynor, Esquire asked where are those studies?

Kevin Dasso stated they I believe they are on the ISO web site. I think they're still public. I am not sure if those were studies that were removed recently or not. They are generally available. I know there are a number of entities here in the City that participated in that study and have those documents.

David Rubin asked shall we move on to the next slide? These next two slides get to some questions around rates. The first one, what's the latest on transmission rates? And then more generally, are there any new rate design proposals that may impact San Francisco electric customers? In order to really respond to the question, it is useful to maybe just remind everybody that our electric rates are made up of three

basic categories of costs including delivery which includes distribution and transmission; generation; and then public purpose program, which includes energy efficiency, low-income, renewables, etc. The delivery rates represent today about 25 to 30 percent of the total electric rate. Most of the rate is now generation based on, as we'll discuss in the next slide, the recent surcharges that were introduced. In terms of any new rate design proposals, I will discuss base line changes in a moment because there was a Commission decision that was just issued that will impact rates paid by San Francisco customers. For delivery charges, as Kevin had described earlier, we continue to invest in our system to replace, augment our facilities, address reliability concerns, and connect new load. Those types of activities on an ongoing basis, normal course of business investments in transmission and distribution, generally have cost implications. We have the opportunity to approach the various regulatory agencies that have oversight of those costs, both the PUC and the FERC, respectively, for distribution and transmission to request the authority to change our rates in those areas. In fact we had been ordered by the PUC recently to file for a 2003 general rate case. In fact, we will be beginning that process next week. On the generation side, it really doesn't appear like those charges are going to go up and in fact, we are all hoping that there will be room in the not too distant future to start to bring those charges down. In the next slide, I will describe those charges in a little bit more detail. But it would all depend on a variety of factors, most notably the costs associated with the DWR procurement that was begun last year.

Commissioner Fellman stated that was my question. When you say generation, does that where your procurement contracts also fit in?

David Rubin stated the contracts that we have with qualifying facilities?

Commissioner Fellman stated no you said you had your DWR contracts that are used to procure power now, correct?

David Rubin stated correct.

Commissioner Fellman asked if that is in your generation category?

David Rubin stated that was all under generation.

Commissioner Fellman stated and you said PG&E signed some procurement contracts that had not yet been approved.

David Rubin stated we had signed some contracts back in again it was I believe October of 2000. I don't know the size of those contracts. I believe they have all now been terminated.

Commissioner Fellman asked those are terminated?

David Rubin stated that was my understanding, correct.

Commissioner Fellman asked and you put your qualifying facility contracts under generation also?

David Rubin stated correct.

Commissioner Schmeltzer asked and then also of course the Diablo and the Hydro falls under there as well?

David Rubin stated our utility generation is also part of the generation category. That is correct.

Commissioner Fellman asked and with respect to utility generation, have those costs been fixed by the California Public Utilities Commission now?

David Rubin stated the Public Utilities Commission did issue a decision, I believe about four weeks ago if I am not mistaken, to set the price for utility _____(unclear) generation.

Commissioner Fellman asked and do you know what those prices are for the Diablo and the Hydro?

David Rubin stated not precisely, no. I believe they are somewhere within the 2 ½ to 3 cents per kilowatt range.

Commissioner Fellman stated I am just trying to get a sense of comparisons because what you have told us today indicates that the only place, where if we had aggregation we could be competitive, would be on the procurement side. So I was just trying to get some sense of what your procurement portfolio costs look like now. Are you planning on sharing that? I saw you had the rates. Can you tell us what the average costs are for the CDWR contracts?

David Rubin stated the Commission just recently issued a decision for the CDWR contracts or procurement, not just contracts but partly what they paid already, which I believe for PG&E is about 9 ½ cents per kilowatt hour. Now, that is for 2001-2002 only. As I understand, does not include the amounts associated with the bonds that the state is expected to be issuing in order to recover the costs associated with the approximately six billion dollars that were spent out of the general budget plus the four billion dollars that were issued as part of a bridge loan last year. My understanding is that the state is about to embark on an approximately ten billion-dollar bond effort to repay those costs, which would then need to be recovered.

Commissioner Fellman asked what about the average cost of your QF contracts?

David Rubin stated those are approximately 7.9 cents a kilowatt-hour and I believe that's probably for the whole volume. I know that the Commission issued a decision in June of last year setting that price for about 75 percent of our QF contracts. We were able to renegotiate them. Now the Commission decision set the price at 5.4 cents for the energy, but those contracts also have a capacity component of about 2 ½ cents so the all end price is about 7.9.

Commissioner Fellman asked that has a five-year window?

David Rubin stated correct.

Commissioner Fellman asked and you said your October of 2000 contracts have been terminated, so are there any recovery costs associated with those?

David Rubin stated I am just not aware that there are. I don't believe there are, but I don't know for a fact. Baseline. The Commission recently issued a decision, I think it was with the last couple of days, that moved the baseline amounts upwards. Now the baseline amounts are essentially a basic level of usage that are typically set somewhere around 60 to 70 percent of the average usage by climate zone. I believe we have thirteen climate zones in our service territory. San Francisco's climate zone includes San Francisco and as I understand, some of the East Bay cities as well. By virtue of that baseline amount moving up, and as I will discuss on the next slide also by virtue of the legislative act last year, which is again ABX1 that established that none of the rate increases that were introduced in March of last year, the 3 cents a kilowatt hour would be applied to customer usage up to 130 percent of baseline. By this recent Commission decision, you now have a greater amount of usage in San Francisco. In fact, I think it went up by ten percent. You have a greater amount of usage and consequently, a greater number of customers that will now not see that 3 cents surcharge that was put into place in March of last year. Now roughly speaking as I understand it, approximately 55 percent of the residential customers in San Francisco didn't see an impact from the 3 cents surcharge when it was introduced last year because their usage basically fell underneath 130 percent of baseline. And based on our estimates and the Commission's recent decision that will now increase to about 70 percent. So in a going forward basis, about 70 percent of the residential customers in San Francisco will not pay or contribute toward the 3 cents surcharge that was put into place June of last year. So it actually is a rate design change that has benefited now a greater number of customers in San Francisco. Any questions?

Commissioner Fellman stated she had another question just on the allocations of your rates. You said 25 percent went to delivery. How much goes to generation?

David Rubin stated approximately 70 percent. Again, these are in rounded numbers.

Commissioner Fellman asked that leaves 5 percent for the public purpose?

David Rubin stated that was correct.

Commissioner Fellman asked and how much is the public purpose program per kilowatt-hour, do you estimate?

David Rubin stated it is about 4/10 of a cent per kilowatt-hour, I believe.

Commissioner Fellman stated I could do the calculation on my bill, I'm sure.

David Rubin stated it is very easy. Moving on to the next slide. The question really relates again to rates and what happened last year about the various add-ons and surcharges. Quite simply, the Commission approved two rate increases last year—one was a penny a kilowatt hour in January, and the other was 3 cents a kilowatt hour in March that actually that was put into rates in June. So these are part of what I call generation on the previous slide. As I mentioned before on the second increase in particular, customer's usage below 130 percent of baseline and care customers, which are low-income customers are exempted from those increases. In terms of what PG&E is doing to avoid power shortages and high prices going forward, as I mentioned we're both helping customers continue to conserve in a variety of ways, and then helping customers as well as power producers interconnect their projects to our system. So in terms of approaching it from both a supply and demand perspective ensuring that we have a very solid balance between supply and demand. We're obviously not alone in this regard. There are a whole range of state and other entities that are busy trying to promote or induce additional generation to come online and or looking for different types of market demands to make sure the fixes become robust enough to ensure that we don't step back into the dysfunctional market situation that occurred in 2000.

Vice-Chair McGoldrick asked what would it take to put into place a time of use system of rates? Do you have that elsewhere in the state, and are you able to indicate what level of adjustment usage that that effects?

David Rubin stated all of our larger customers above 500 kilowatts are mandatorily on time of use rates. Now below that level, it's mixed. Commercial customers depending on their usage profiles and their size may or may not be on time of use rates. There was a process set up by the Commission in response to legislation that would have lowered the size threshold for customers to be on time of use rates. We've made filings before the Public Utilities Commission. It hasn't been acted on yet. The presumption is that at some point more and more customers might be required to be on time of use rates, and then below again a particular size threshold customers can voluntarily be on time of use rates. Residential customers for that matter can and are on various time of use rates. One of the issues though is that with the power market sort of still trying to fix itself or be fixed, the connection between the prices and the power market and the time of use base rates that customers see is somewhat less direct than it otherwise might have been. In other

words you really need to have it working all of the way through, have a robust wholesale power market that provides the appropriate time base pricing signals to really then have those connect directly with the price signals that retail customers are seeing. Otherwise, it's really done by an allocation process, which are based on various types of allocation assumptions that may or may not fully match what's happening in the real time market at any point in time. I don't know if that was directly responding to your request or not. There again is at this point today a fairly significant penetration that customers on real time rates, and we frankly expect that will continue as we move forward. Part of what's required though is in many cases changing out meters so that the customers would have the adequate metering capability to be able to have their usage recorded according to either time buckets or hour by hour.

Vice-Chair McGoldrick asked when you say that customers can voluntarily be on these rates, how would that work?

David Rubin stated we have again for each and every customer class, rate schedules that have time of use rate components. If you wanted to choose to do so for your home, you contact the PG&E representative and they can move you from what you're on now which is presumably not a time of use rate to a time of use rate schedule. Depending on your usage characteristics, that may or may not benefit you or how you change your usage characteristics relative to the time differentiated prices that you would see.

Vice-Chair McGoldrick asked have you promoted that very widely as an energy management program?

David Rubin stated yes, we have. It's been a long-standing program where we in fact send out bill inserts, on a I don't know if it's a quarterly basis or not, but on a regular enough basis to encourage customers to look at switching their tariffs to a time of use tariff.

Vice-Chair McGoldrick asked that would involve people actually calling PG&E and requesting a meter change?

David Rubin stated that's correct. We again send out informational notices in our bills with our bills to let people know that they may in fact be better off under a time of use rate either based on their existing usage characteristics or based on how they might change their usage characteristics in response to the different prices in the time of use bins.

Vice-Chair McGoldrick asked how many households in San Francisco utilize that?

David Rubin stated I can get back to you on that. I don't know exactly. I believe service territory wide we have close to a quarter million residential customers on time of use rates. I have to confirm that number. I am not sure what the answer is

for San Francisco. There was at one point in time, and the reason I am going to give you a sort of I don't know for sure answer is that prior to 1996, I believe, it was recovery through a special meter charge on the rate schedule. Then there was a Commission decision right around the time that the market was being restructured that then had the customer pay up front for the meter, and they wouldn't pay the ongoing meter charge. I just don't remember. I seem to have some vague recollection of that decision having been overturned, but I simply can't recall. So, in any event it would either be paid as an ongoing component on the rate schedule or up front by the customer.

Commissioner Fellman stated that is something we might want to ask Barbara as well if you are interested in it, Commissioner McGoldrick.

Vice-Chair McGoldrick stated this is the first I've ever heard of it, and I've lived in San Francisco for almost twenty-seven years.

Commissioner Fellman asked do you pay your PG&E bill or does someone else?

Vice-Chair McGoldrick stated of course.

Commissioner Fellman asked do you open it?

Vice-Chair McGoldrick stated of course. So I have to confess I never knew this existed, and I have never heard anyone discuss this in the city of San Francisco. That's why I am curious to know. You say you have in your territory, could you tell me what that territory is--250,000 people approximately on this time of use rate?

David Rubin stated that's residential customers. We have about four and a half million electric customers, so about a quarter of a million residential are on time of use all commercial and industrial.

Vice-Chair McGoldrick asked out of how many customers?

David Rubin stated four and a half million.

Vice-Chair McGoldrick asked out of four and a half million about 250,000? I would just be curious to know about San Francisco because again, I have never in twenty-seven almost years ever heard of it.

David Rubin stated you just have to take a closer look at the wonderful material that we send as part of our billing envelope.

Vice-Chair McGoldrick stated I am a little surprised, but very pleasantly surprised and hope that we can promote this for one thing.

David Rubin stated I will get back to you on the number of accounts that we do have.

Donald Maynor, Esquire asked how long have you had the mandatory program for the larger customers? Is that relatively new? Is it a mandatory program?

David Rubin stated I think that goes back to 1990 if I'm not mistaken. I can confirm that but it's been quite some time.

Donald Maynor, Esquire stated the reason that I ask is because Edison was telling the cities down south that as a result of going on time of use rates, that cities could see a substantial increase in their electric bills for whatever reasons because the nature of their load, may be the streetlights or whatever. I don't know to what extent San Francisco's municipal load is provided through the Hetch Hetchy or is subject to time of use rates. Do you have any sense on that?

David Rubin stated I don't know but I can certainly check and find out for you. It is true that certain types of customers depending on their load characteristic; if they were to voluntarily self select onto time of use rates may pay more. What you've typically seen over time is what I'll call a self-selection process, which is typically that customers that do benefit by going on to time of use rates. If you are not within the category of customers that have to, right, which are the larger ones. The ones that tend to go onto time of use rates typically have usage characteristics that are favorable for that type of rate schedule, which means people who are not home from noon to six which is when the higher prices are, or people that tend to use more of their power off peak. It's not to say that you don't find still customers who move onto the time of use schedule and then actually modify their usage to then respond to the pricing signals. That happens as well. The point that you are getting at is a good one because that's been part of the debate of moving the size threshold down to smaller customers and forcing them onto time of use. If they have a commercial business that just simply doesn't allow them to shift much usage into the off-peak, they may end up paying a higher price.

David Rubin stated next slide, I believe this is the last one in terms of the prepared material, which raises the question regarding what PG&E is doing in order to encourage economic development in San Francisco. The answer is we actively support economic development not only in San Francisco, but throughout the service territory. There are a number of specific initiatives that we have supported in the City including as is mentioned here employment training, such as for example, the San Francisco Conservation Corps job training program; various types of small business incubation efforts, and an example would be the San Francisco Renaissance Center, the Women's Tech Incubator; and other types of social service programs. We've also provided grants to over approximately sixty local organizations over the course of the last three years. The total grants for these organizations amount to about half a million dollars. I think about \$580,000. Then I will note the supplier diversity program, where we have won awards for our supplier diversity results greater than 26 percent of our expenditures on contracts and

various types of services and supplies had been with minority or women-owned businesses.

Donald Maynor, Esquire stated municipal utilities will often times create special rates to induce businesses to come into their communities. Does PG&E have the ability to do that, or is that something unique to municipal utilities?

David Rubin stated no; it's not unique to municipal utilities. We do have on the books today an economic development rate option that would be applicable within enterprise zones throughout our service territory as well as reuse military bases. We've made a proposal before the Public Utilities Commission to offer the rate that has broader geographic reach, i.e., throughout our service territory as opposed to just within enterprise zones. We made that proposal back in 1999. It hasn't been acted on. We are hoping it will be acted on sometime soon.

Donald Maynor, Esquire asked do you know whether San Francisco has enterprise zones in the City and County area?

David Rubin stated I will check. I do not believe there is an active enterprise zone in San Francisco. Although as I say that, I will also need to check whether the Hunter's Point base fits within the military base we use at Mieran. We are happy again to entertain further questions.

Donald Maynor, Esquire stated I was kind of curious about the fifty million dollars that you are spending on distribution. I know I'm not allowed to get into the bankruptcy side. Where does that money come from? Is that money that's available through your normal PUC rate process, so it's there, available and being spent on distribution?

David Rubin stated yes, correct.

Donald Maynor, Esquire stated we heard a lot of testimony. I can recall talking to people talking about the distribution system in San Francisco itself as being very old and archaic in some respects. What is your general sense of the distribution system here?

Kevin Dasso stated with respect to age?

Donald Maynor, Esquire stated with respect to age, reliability? You indicated that in terms of outages it was in the upper third. That sounds good. But maybe when something gets old, you'll start encountering more problems like a car. At some point my clunker is really going to start acting up on me. Is the age and condition of the system in San Francisco one that you would anticipate having more problems because of its age or its configuration over time, or is it in relatively good shape and getting better each day?

Kevin Dasso stated I would have to say generally, it's in relatively good shape. There are many parts of the system that are older. However, some of the technologies that were used in the earlier days of when the system was constructed or actually very robust, and if maintained properly and inspected and checked that they can perform adequately for quite a lot longer. With respect to the specifically, the frequency of outages, our system here in San Francisco has actually been improving. We're seeing some improvements. The fifty million dollars that I have mentioned is going into upgrading and replacing cable pulls, transformers and other equipment. So that as it reaches near the end of its effective life, that we are replacing it at that time. We've done a substantial increase in those types of investments over the last couple of years. Our aim is to keep pace with any deterioration that may be occurring with regard to age.

Donald Maynor, Esquire stated when deregulation came about there was a lot of cost cutting in utilities. Did you see a reduction in your budgets for maintenance of the distribution facilities?

Kevin Dasso stated with respect to the deregulation in California the '95-'96 time period, actually our capital expenditures went up during those time periods.

Donald Maynor, Esquire asked what about the maintenance?

Kevin Dasso stated the same thing, the vegetation management, maintenance activities, inspections, capital investments, those have been actually increasing dramatically over the last couple of years. Overall, we're looking at a capital budget this year for the utility of about \$1.5 billion dollars, so it is substantial. It is not going the other direction. Actually, it seems to be staying at those higher levels.

Donald Maynor, Esquire asked, do you anticipate power shortages? Medium, low, high risk of power shortages in the next one to five years? What are the potential problem areas?

Kevin Dasso stated the ISO just recently came out with their assessment of the summer of 2002, indicating that they do not expect to have to implement any type of rotating block outages on a expected basis. There is always the possibility that a plant or a local condition could have an impact on that. However, the energy outlook is guardedly optimistic. That is probably the best term. They are still encouraging and everyone is encouraging continuing the conservation efforts that took place last summer to the extent that even if it's not to the same levels as we had last summer, that improvements over prior years would further help the supply picture. I think they are assuming that some of the load will come back this summer, but even with that assumption, the energy outlook is pretty good. Hydro is good in Northern California. Hydro in the Northwest is coming back. It's not back to normal yet. However, it is being restored. Those are all good things. There have been additional generators built here in California that further address those issues.

Commissioner Schmeltzer asked, going back to your slide about half way through with the discussed distribution transmission in Hunter's Point. On the transmission portion, what do you anticipate happening or what problems do you foresee if that Jefferson Martin line doesn't meet your proposed schedule.

Kevin Dasso stated I think the biggest question there is the ability to reduce our reliance on Hunter's Point Power Plant and having Hunter's Point comply with a ratcheting down of air quality emission requirements. There is a change that occurs in 2005 that further reduces the noxious output from plants in the Bay Area. That is one of the issues that tend to drive the timing of that project. Again, as I mentioned, we're committed to shutting that plant down. We want to have that project in place so we don't run into that situation. It would require substantial investments in Hunter's Point, and that would be going in just the opposite direction of what our stated commitment to do that is. That's all the more reason why we want to work with the Public Utilities Commission to be sure that we can stay on schedule with that project. If I could just add one more thing--It really depends on the load growth in San Francisco. We have a number of load growth scenarios that we have looked at and the extent to which we have issues that are driven by that project really depend on how the load grows. If it stays at current levels, we would not anticipate a problem for quite some time even without that project. However, we are assuming that load will grow and that development will occur and that there will be a need to expand the system. That really drives the timing of that project quite substantially.

Commissioner Schmeltzer asked and if I understand correctly the project is for a new line or extended line between the Jefferson Substation and the Martin Substation?

Kevin Dasso stated correct.

Commissioner Schmeltzer asked does that require additional construction at each of those substations to enlarge the stations themselves or it just the line that would run in between?

Kevin Dasso stated actually the footprint of those substations is not going to change; however, there will have to be substantial construction that will have to occur within those substations. The vast majority of the construction will be along the 27-mile length of the project.

Commissioner Fellman asked where is the Jefferson Substation located?

Kevin Dasso stated it is very close to the intersection of Highway 84 and Highway 280 near Woodside. It's a couple of miles north of there.

Commissioner Fellman asked and Martin is?

Kevin Dasso stated the Martin Substation is very near the Cow Palace.

Commissioner Fellman asked I had a question that you just triggered with your comment about how much load growth there will be in San Francisco. If there's a new customer that brings in new load like a new office building, a new industrial facility, a new residential development, and suppose those customers would become part of the City and County's aggregation plan, would those customers be subject to your exit fee or your non by-passable charges?

David Rubin stated all customers within our service territory, and this is the same issue actually if I can take a step back, came up in the context of the restructuring decisions that were put in place in 1995 and 1996. The same general discussion around should new customers be distinguished from old customers with respect to the costs of, say in that case, power plants that we had built or contracts that we had entered into? Where the Commission and legislature came out is that they would make no such distinction one way or the other. In other words, they wouldn't have a sort of benefit for a new customer that a legacy customer would have to continue to pay. Although this question hasn't directly been brought into sharp focus as part of the Commission's proceeding on the direct access non by-passable charge issue, my presumption is that they will probably end up treating it in the same way, which is that all customers within the service territory. Arguably the procurement decisions made by the Department of Water Resources to lock into contracts that in some cases were ten or twenty years long were predicated on a certain expectation of load growth as well. So the cost associated with those procurement decisions would presumably be paid for by all customers both existing as well as new.

Commissioner Fellman asked and what if there were customers that were interconnected through a City-owned facilities that were then connected to PG&E so the customer itself never saw a PG&E bill, do you see those customers being subject to exit fees?

David Rubin asked can you explain the scenario again?

Commissioner Fellman asked, if there were a customer, say there were a new office building or new industrial facility that wanted to be served by the City alone, and the City built an interconnection with PG&E so there would never be a direct nexus between the customer and PG&E, the City would serve as the intermediary. For example, if there were an office building and the City took the power, and then we would have the right to sell it then to that office building.

David Rubin stated that I don't know how that type of situation will be treated by the Public Utilities Commission as part of the proceeding that I mentioned earlier. The way that it was treated again analogously looking at AB 1890 was that that customer would still end up paying the non by-passable charge.

Commissioner Fellman stated thank you.

Donald Maynor, Esquire stated when you look at the nuclear power plant Diablo, are the decommissioning costs included in the rates that you are currently charging? What is the estimated life for the nuclear power plant by the way?

David Rubin stated I can answer the first question which is that the nuclear decommissioning costs are included in the rates. There is a separate rate component for nuclear decommissioning. In terms of the remaining life, is that something you have an answer for?

Kevin Dasso stated I don't know.

Donald Maynor, Esquire stated so when that plant is decommissioned there should be no costs that are assigned to future customers for paying that project? It's built into the life of the project?

David Rubin stated yes again, there is a rate component called nuclear decommissioning that is a non by-passable charge similar to others that all customers contribute toward. I know that that has a remaining life of I believe another fifteen years—the charge itself. So maybe that lines up with the physical life of the plan.

Donald Maynor, Esquire stated now may be a good time to entertain our questions from the public. We only have one question. If there are members of the public who would like to ask a question, we ask that you pick up a questionnaire from the kiosk, place it on the speaker platform, and we will pick it up and ask the question. This is a question from Charles Kalish and it is a detailed question. What is PG&E's target goal and date for providing these following items? This would be a percentage of electricity supplied by renewables, percentage of electricity supplied by conservation and by energy efficiency. If you have the plan of that nature, if you could give us the details of that plan? Do you have a sense of what the question is about?

David Rubin asked if I understand, if you are asking if we have a specific plan?

Donald Maynor, Esquire asked do you have a plan with a date and the amounts of energy electricity that would be achieved by renewables by conservation and energy efficiency? That would be the target dates as well as the amounts.

David Rubin stated subject to check. I am not aware that we have a specific plan with specific goals and specific dates associated with those goals. We do again, as I have indicated earlier, offer financial incentives and manage a range of programs that are directed toward each one of those different categories. I just don't know that there's a specific objective in terms of the amount of load that will be represented by each one of those different forms of either conservation or in the case of renewables production. There is, as you may be aware of a draft bill now that is sponsored by Senator Sher, I believe it's SB 532. Mr. Dasso you may know more details than I do, but it does call for a renewable portfolio standard that was in a target for power

procurement coming from renewables. I believe the target is 20 percent. I am not sure if the date is 2011 or 2012. It's sometime out in the future. If that bill were to come to pass, that would impact.

Commissioner Schmeltzer asked does PG&E have a position on that bill?

David Rubin stated I believe our position is that we are concerned that the bill only applies to investor-owned utilities. Beyond that, I am not sure whether we have taken a neutral or a support position. We do know that a large part of our procurement portfolio today, including the qualifying facility contracts do have power coming from various types of renewable resources. I think that we are at the ten or eleven percent level, if I am not mistaken.

Donald Maynor, Esquire stated you mentioned a number of programs that you have conservation energy efficiency, are these programs essentially system-wide programs or to what extent can a community work with PG&E to attempt to tailor those programs for the particular community?

David Rubin stated the answer is yes to both. The programs are both system wide but we also work very closely with communities in our area to help implement the programs, tailor them to the specific needs. I know we had a specific program with, I believe the City of San Jose, over the course of the last couple of years. There has also been now a growing opportunity for cities to avail themselves of some part of the total monies that are made available. That is the process where the Public Utilities Commission reviews specific proposals. I believe they just recently issued a decision allocating the monies for the program year 2002, and I know there were a number of cities and or private entities that received monies under that program.

Donald Maynor, Esquire stated we have another question from Robin David, and I assume this relates to the Jefferson Martin line. The question is with respect to this line. Are you going to run it through the existing right of way used for the old transmission lines, and if not, what political, land use, and environmental problems do you anticipate?

Kevin Dasso stated the environmental work associated with the siting of that project hasn't been completed. However, what we are currently leaning towards is that we would reconstruct an existing transmission line that runs along 280 from current operation at 60 KV to 200 KV for at least half of the project. We would be attempting to use existing overhead facilities for half of the project. The other half of the project would be run underground, and I believe we studied actually six routes. We are looking at three that we think are very feasible that are largely in the franchised areas or existing city streets and would not require any substantial new land acquisition in order to accommodate that. One of the routes includes a portion along the CALTRANS right of way and also the BART right of way. Those are things that we would have to negotiate with those agencies. But by and large, it would be located in the franchised areas. There is another route that we are considering, an

all underground route all of the way from Jefferson to Martin. We are currently proposing or evaluating that that would be located in the franchised area and would not require any additional rights of way to be acquired. In terms of the issues that we have, it's typically people who have businesses or live along the streets would prefer not to be disrupted with regard to the construction especially with those projects and will tend to lobby to have it on another street or another area. Those are the types of issues that the Public Utilities Commission deals with as they go through that siting process which is required under CEQA. Those are all considerations. Those are the types of issues that we anticipate.

Donald Maynor, Esquire asked if there are any other questions from the public? Or did you want to ask any follow-up questions Mr. Kalish or Mr. David? Any more transmission questions?

A presentation was made by both speakers and is available at the Clerk of the Board's Office, in Room 244, City Hall.

Vice-Chair McGoldrick stated I see no other questions. This should end our morning session. We would go on a break and we would be back with the afternoon session beginning at 1:30 p.m. Thank you very much for coming here, Mr. Rubin and Mr. Dasso.

The morning session adjourned at 11:54 a.m.

Afternoon Session: 1:30 – 2:00 p.m. Representatives of California Public Utilities Commission and The Utilities Reform Network (T.U.R.N.).

The afternoon session convened at 1:40 p.m.

Commissioner Ammiano called the meeting to order.

Members Present: Commissioner Ammiano, Commissioner Hall, and Commissioner Schmeltzer. Commissioner Fellman was noted present at 2:04 p.m.

Members Absent: Chair Gonzalez and Vice-Chair McGoldrick.

Donald Maynor, Esquire stated this afternoon we are hoping to hear from T.U.R.N. as well as a representative from the California Public Utilities Commission (CPUC). One of the difficulties we had in planning today's meeting was we had a late commitment from PG&E, and so we had to get a belated request over to the CPUC. I'm not sure T.U.R.N. will be present. If Mike Florio appears, he will be here. If not, Barbara Hale here is from the California PUC. She has been with the PUC for a long time. I don't have her bio, so I will ask that she relate her credentials to you right now.

Speakers:

Barbara Hale, Director of Strategic Planning, California Public Utilities Commission stated I apologize Mr. Maynor, you had asked me for a bio and I neglected to follow through on that. I've been with the Public Utilities Commission now for about fourteen years. I have had a number of roles there. At present, I am Director of Strategic Planning for the Commission and responsible for helping the Commission look out into the future and understand what coming regulatory and market issues they may need to be grappling with. When I was asked to represent the Commission today, I was handed a list of questions from the Committee that I liked to address in the context of some prepared remarks and I am certainly open to a free range of questions and discussion. I think we could both benefit from that. As a regulator I come to you to offer the perspective of the regulator and the perspective of the regulator from the unique context of what California has experienced in the electric market since late in the year 2000. Let me take a moment to describe what it means to be speaking from the perspective of the regulator. The California PUC doesn't just regulate privately owned electric and gas companies like Pacific Gas and Electric Company. We also regulate privately owned telecommunications, water, sewer, rail, transit, and passenger transportation companies. The California PUC is responsible for assuring California utility customers have safe reliable utility service at reasonable rates protecting utility customers from fraud and promoting the health of California's economy. The California PUC is generally responsible for industries whose services are considered essential and whose revenues from California exceed sixty billion dollars annually. Some of the questions that are posed to me from the Committee have to do with the Commission's objectives. I will address them more specifically for this coming year. In general, the Commission's fundamental objective is to assure fair and reasonable utility rates, reliable high quality essential services. California's PUC actions are driven by the belief that the provision of reliable and reasonably priced utility services are essential to the health of the economy, the health and well being of the population, and the high quality of life for all Californians. The key challenge for all the essential services that the California PUC regulates is to promote and encourage infrastructure expansion and improvement while assuring environmentally sensitive development and compliance with environmental and safety laws.

Now I would like to talk a little bit about the electricity market in general, and then I will get more into the specifics of the questions. Beginning in the spring of 2000, California has been beset by a runaway wholesale market on which California utilities had become overly dependent. The dependence was the result largely of policies that encouraged utility divestiture of their generating resource base. That resource base was substituted with purchases in spot and real time markets from marketers and merchant generators. At the end of 2000, the Federal Energy Regulatory Commission eliminated wholesale price controls without any effective substitute for preventing the exercise of seller market power. I've provided each of you with a comparison of the wholesale to retail energy crisis in the year 2000 and 2001. As you can see as that's charted over time how we saw in California prices that were really out of control until FERC stepped in. Within a matter of days,

utilities were completely stripped of their cash and credit. The State of California through the California Department of Water Resources had become the buyer of last resort to prevent wide spread blackouts caused by generators withholding supplies, and the California PUC had to raise rates to unprecedented levels. Calendar year 2001 was spent returning stability to commercial relationships in the electricity business through the re-imposition of FERC price controls, rapid development of state purchasing capability, rate increases, wide spread deployment of conservation and efficiency measures by consumers, and settlements of some outstanding disputes over the responsibility of the state for recovery of unreasonable wholesale costs from ratepayers by utilities.

Now the Committee had asked me, what are the primary goals that the PUC will be addressing that may impact San Francisco in that historical context? I see calendar 2002 spent rehabilitating the electric utilities' financial conditions so they may resume their obligation to serve their customers in accordance with their constitutional and statutory responsibilities. Creditworthiness is a word you will be hearing about a lot in 2002 from the PUC. I imagine you heard a lot about it this morning from Pacific Gas and Electric Company. For PG&E the Commission's vehicle for establishing creditworthiness is the bankruptcy proceeding. On Monday, according to the schedule established by the bankruptcy judge, the PUC will file its alternative reorganization plan. 2002 will also be spent putting in place comprehensive measures for assuring that electric service will remain reliable and reasonably priced through the development of integrated resource planning procedures for timely, effective, and environmentally appropriate infrastructure development and demand site program deployment for each of the utilities and the state as a whole. 2002 will be spent working to stabilize wholesale electricity prices.

You also asked the PUC what role the legislature should play. The California legislature may need to clarify the deregulation statute further, but largely I see the going forward work as traditional work of the regulator. Rate making that enables utilities to serve that protects consumers with special attention paid to low income customers, and that funds appropriate infrastructure development.

You queried me as to whether PG&E is going to be in the generation business or the power purchase business.

Commissioner Schmeltzer stated that last question about what role should the legislature play. Are you saying that you see them taking on some of the issues that were generally held by the regulator.

Barbara Hale stated no, let me clarify. I was trying to say that the deregulation statute may need to be, and by that I am referring to AB 1890, may need to be further clarified as we go forward this year with the transition from DWR back to the utilities of the responsibility for procurement. Recall that in January of 2002, DWR was given the authority on an emergency basis to take up this responsibility. That was a revision to the statutory construct that is hard to jive with 1890. Because of

that as we transition out, there may need to be some clarifying statutory effort. I don't see a role for the legislature in doing what I was describing just then as traditional regulatory work, rate making, consumer protection, those things. I am happy to take questions as I go through each of the questions that are on your list. I don't mean to just be pushing forward. Please speak up if you have questions as I go.

You've also asked whether PG&E is going to be in the generation business or power purchase business on a going forward basis. In my view, PG&E Corporation is decidedly in the generation business. The open question framed by PG&E's bankruptcy reorganization plan is whether its generation business will be regulated by the PUC, not whether they are going to be pursuing a generation business. As I see it, it comes down to whether the state should allow PG&E to earn unrestrained profits on the investments made by ratepayers like us in its generation infrastructure. The PUC position is that the state should continue to regulate PG&E's generation business to protect consumers from unreasonable rates and untold (unclear) profits. You had posed some questions about direct access's future. The future of direct access is driven largely by the legislative directives the PUC has been given. Electric service providers serve between ten and fifteen percent of the utilities' load in California, primarily that of large industrial customers through the direct access program. The program was suspended by legislative directive in February of 2001, and now the PUC is focusing on the rate making consequence of the shift of load from utilities and DWR to energy service providers. That shift effectively leads a power purchase surplus that must be paid for by all customers. At this point in time, the PUC is not considering reopening enrollment in the direct access program, but rather addressing the rate making concerns that existing levels of enrollment in direct access have created.

Commissioner Schmeltzer asked I'm not sure if it appears farther down here, but, Migden's aggregation bill that is pending in Sacramento right now, how does the PUC see that bill? Should it go forward, being implemented effecting the direct access program or San Francisco or other customers in the future?

Barbara Hale stated the Commission has not taken a formal position on the Migden bill. Some of the concerns the Commission has about the direct access program and the shift in load that it creates would be similar to the shift in load concerns that a community aggregation program may create. I think there are parallels there that may be instructive on what sort of position the Commission may take on that legislation.

Donald Maynor, Esquire stated our protocol is there's a questionnaire on the kiosk and if you can fill it out, we will ask your question at the end of the presentation. I had a question Barbara, about your comment about the PUC stabilizing the wholesale market. I wondered if you could explain what comprises the wholesale market and what can the PUC do to stabilize that market?

Barbara Hale stated at present, the wholesale electric market is regulated solely by FERC, the Federal Energy Regulatory Commission. The independent system operator in California has tariffs that are approved by FERC, and most wholesale electric transactions in California go across the independent system operators run grid. That's true certainly for the investor-owned utilities that the California PUC regulates. When I talked about the PUC taking some time and dedicating some effort this year to stabilizing the wholesale price of electricity, that's largely through its participation in FERC forums.

What aspects of electric service are likely subject to PUC regulation in the future? In the aftermath of deregulation, I see the PUC returning more to its regulatory roots. The PUC will continue to oversee infrastructure additions. At this point, largely transmission and distribution system additions, energy efficiency investments and scrutinizing utilities costs of service. During 2002 and 2003, the PUC will perform general rate case reviews of all the investor-owned energy utilities including Pacific Gas and Electric Company. These reviews will be comprehensive and will establish the relationship between delivery rates and delivery service as well as establishing standards for the quality for delivery service for the major California utilities.

You were also asking about steps that the PUC would be taking to address outages. Given that PG&E was represented this morning in part by Kevin Dasso, I imagine you heard quite a bit about the transmission upgrades that they are slated to perform. Those will largely address the outage concerns for the San Francisco peninsula. We see substation upgrades up and down the peninsula as well as major transmission line upgrades. I imagine Mr. Dasso talked a little bit about the Jefferson Martin upgrade.

Donald Maynor, Esquire stated yes, he did. I think he explained, correct me if I am wrong, that he didn't need the permission from the FERC. It was more of a permission from the ISO and there was an approval from the PUC that was necessary.

Barbara Hale stated I'm sorry Mr. Maynor, did you say that he said that there was no approval?

Donald Maynor, Esquire stated that the only approvals that would be required would be by the ISO and the PUC. I forgot what he said the timing would be at the PUC process, but I got the impression that it would be within the year.

Commissioner Schmeltzer stated that he said that they were on the ISO calendar for April 25th, and that they expected to file their environmental assessment with the PUC in the fall.

Barbara Hale stated that is consistent with representations that Mr. Dasso and other PG&E representatives had made to me and to the Commission. PG&E has gone through an extensive series of studies that have included Public Utilities Commission

staff and looking at what the alternatives are for addressing the transmission upgrade need. The Jefferson Martin transmission line is one of several that were under consideration, and we understand that the ISO will be acting on the 25th on that. Perhaps Mr. Florio would be ready to talk a little bit about that. We're anxious to have Pacific Gas and Electric Company come in with their application for PUC approval. They have not done so yet and have represented that that should come in the fall. You had also asked what the date of service was for that. They have indicated to us, assuming all approvals go smoothly, that that upgrade would be in service in June 2005.

Donald Maynor, Esquire stated I should introduce Mike Florio of The Utility Reform Network (T.U.R.N.). I appreciate you coming by, Mike, on short notice.

Mr. Florio stated my apologies for being late. We had a little confusion on our end, but hopefully I can make up for that.

Donald Maynor, Esquire stated no problem. What I wanted to encourage you to do is if you had questions or comments that you would like to share on some of these topics, go ahead and chime in because I think it would enhance the discussion.

Mr. Florio stated I would just say on the Jefferson Martin, I have also been told that's going to be on our ISO agenda. At this point, I don't see any reason why that wouldn't be approved. Then it's a question of siting which is always difficult for transmission, but I don't think there's a whole lot of controversy about the need for it at this point.

Barbara Hale stated yes, we do expect that it will be a contentious siting proceeding at the PUC. We have found that almost every transmission line that comes before the PUC of late is rather hotly contested by local residents, and I don't expect this to be an exception to that.

Donald Maynor, Esquire stated that one of the things that came out this morning was the discussion about the transmission rates and I guess the ISO has a proposal at the FERC at this time. One of the questions that we were asking about was how would this impact San Francisco? Would they be included in a zone for purposes of congestion rates? The reason why that could be important is if they got into the aggregation business, and they were deemed to be in one of those zones, they may have to pay a much higher transmission rate. Of course, as long as I have been around I have always heard the notion, on the retail side, of arguments being made of having zonal rates on the retail side. Is that something that might come back again? Or what is the PUC and T.U.R.N.'s position on the retail side.

Barbara Hale stated on retail electric rates being adjusted by zone?

Donald Maynor, Esquire stated yes.

Barbara Hale stated at this point, the Public Utilities Commission has relatively flat rates for residential customers and then tiered rates for other customers. That's the traditional approach. In the face of the energy crisis, we tiered rates for all customers with and protected lower consuming residential customers from any rate increases whatsoever. There have been a lot of work of late looking at further time differentiated rates for all customers. But not much looking into zonally different or geographically based rate differences. The exception to that is in the way the Public Utilities Commission calculates rates and the baseline allowance that you have, the allowance that you have for your household expected to be consumed at the lowest possible rate is a zonally-differentiated amount of energy. So that's the only geographical or zonal difference that is currently in the rate structure for retail customers.

Donald Maynor, Esquire stated in my question was really what happens if the FERC comes out with dramatically different rates depending what zone you are in? Is the PUC or T.U.R.N. philosophically opposed to creating or differentiating or allocating those costs based on those zones?

Commissioner Schmeltzer asked may I ask a clarifying question? My understanding from this morning is that the zonal ISO rates that were being discussed had to do with transmission only and not generation, is that right?

Donald Maynor, Esquire stated right.

Commissioner Schmeltzer stated I think that you were just describing generation rates, or am I mixed up?

Barbara Hale stated I was describing retail rates because that's what Mr. Maynor was asking me about.

Commissioner Schmeltzer stated retail rates, okay.

Donald Maynor, Esquire stated here is the question and this is very significant actually. Because of this proceeding that is going on at the FERC possibly creating special transmission rates depending upon what area you live in, so if you live in a congested area, you would pay much higher rates. Likely, San Francisco is located in one of those congested areas. Today, when you pay your PG&E rate, part of that rate includes transmission costs, but is based on a system-wide basis. If San Francisco wanted to get into the aggregation business and they had to pay their own transmission rates to bring import power in, they may find themselves paying a much higher transmission rate because of this FERC proceeding because they live in a congestion area. My question was, in the past, there has always been a discussion whether you should have different kinds of zonal rates depending on where you live at the retail level. I was wondering if there was a philosophical opposition to this idea of maybe allocating those costs that would come from the FERC based on

these zones and reflect them in the retail rates depending on where you live. I don't know if that makes sense.

Michael Florio, stated actually, from my work at the ISO, I am fairly familiar with what is going on. I think it's fair to say that it's extremely likely that there will be some kind of locational pricing at the wholesale level. While those are transmission congestion costs, they end up being reflected in energy prices, so energy will very likely be more expensive in congested areas than in not congested areas. What the PUC does with that at the retail level is an open question, and I think many of us expect that the PUC will not simply flow those prices through a retail but will retain some sort of averaging. I may be presumptuous here, but it does have an impact for a municipal utility such as Palo Alto, or if San Francisco were to form a municipal or a community aggregation, it would be subject to those prices. That's not as bad as news as it sounds initially for a couple of reasons. First, any implementation of what's called locational marginal pricing or zonal pricing would have accompanying it a system of what are called firm transmission rights that would allow the holder of those rights to avoid the congestion charges. One of the issues that is currently before the ISO, and we will need to make a proposal to FERC on that, is how to divvy up these firm transmission rights. One of the proposals is for the local load serving entity to be allocated a proportionate share of those rights. San Francisco has been well represented in these discussions,, and my sense is it may be swimming upstream to try and say we don't want any kind of zonal pricing at all. I think a more productive approach for the City would be to advocate vigorously that it be allocated firm transmission rights that would be a protection or a hedge against transmission congestion charges. That's something that is probably going to be decided in the next couple of months. I think it has great import really for consumers throughout the Bay Area. The other side of the coin in terms of congestion costs is in the Bay Area we have a more moderate climate and our usage tends to be less on peak and therefore less expensive than in the valley. On the one hand we have a congestion problem that hurts us, but on the other hand we have a favorable climate than a flatter usage pattern that helps us. How those two balance out is really something that hasn't been analyzed fully, but it's not an unmitigated bad thing for the Bay Area because we do have some natural advantages as well as disadvantages.

Barbara Hale stated I would just add that the PUC in its interactions with the ISO on this issue has been supportive of zonal pricing at the wholesale level. When you were posing your question to me, I was trying to focus on the retail aspect. The Commission has always set or traditionally set retail rates based on marginal costs but does not just pass through the full marginal cost. Yes, I would agree with Mr. Florio, you are not being presumptuous I don't think, or at least I will join you in the not being presumptuous that I would expect the Commission would not pass it through wholesale.

I was going to conclude by talking about some of the proceedings that I thought the City of San Francisco and the LAFCo folks would be interested in my highlighting

because of the impacts in San Francisco. Clearly, the bankruptcy proceeding is a big one. But for purposes of participation before the Public Utilities Commission, I would strongly encourage the City to focus its attention on the general rate case filing that PG&E will be making. That's where the real rubber hits the road at the PUC is reviewing the prospective expectation of the utility and how much its going to be spending and how its going to be spending it. The proceeding where we will be looking at setting the direct access exit fees is also a proceeding I would imagine the City would be interested in. That's where we will assign costs among customers based on whether they are keeping their load with the regulated utility or have exited the utility's fold and are taking advantage of the direct access program. Any time that the Commission is looking at setting rates and shifting the allocation of costs among customers classes I think would be a time for consumers to be actively engaged which is why I mentioned that proceeding.

Commissioner Schmeltzer stated Ms. Hale, speaking of direct access and in light of the Commission's recent decision of allowing some of the direct access contracts to stand and how that shifted the burden. Can you talk a little bit about the impact of that decision and how that might be comparable to the aggregation bill.

Barbara Hale stated that what the Commission had before it basically was a question of, in light of the legislative direction to suspend direct access, at what date should that become effective and what should the impact be? What does the Commission imagine the impact to be going forward? The Commission set, and this was not just an inconsequential choice between dates, but I am going to describe it as that. First there was the date in July I believe it was, where if the Commission chose to suspend the program as of that date, there was only about three percent of load signed up with the direct access contract at that point. The alternative date under consideration by the Commission was a date in September. By that point in time after going through this crazy summer, we now had ten to fifteen percent of load signed up with an energy service provider under contract for a direct access service and not for service by the investor owned utility. What that means is the power that was contracted for the power purchase commitments that were made to cover the full load of DWR and the investor-owned utilities, while the contract commitments remained the same, the load it was to serve shrunk. The effect of that absent an exit fee calculation, absent an obligation on the part of the departing customer to pay, what that would mean is that all remaining customers, that remaining eighty-five to ninety percent would have to pick up the full cost of the power purchase commitments. That same question comes up in the context of community aggregation. If a group of customers in the case of the direct access program primarily large industrial and community customers in the community aggregation program, just about anyone is going to create a shrinkage in the load to be served, while the outstanding commitments for power purchases that were made to serve that load and the remaining load still remain. So there's a chunk of dollars that are left to be paid without customers to pay them. That is the analogy I was trying to draw earlier.

Commissioner Schmeltzer stated and I understood that and I guess I wanted to ask the second half of that which is, since those customers were allowed out of the pie, what's the second half of the analogy for aggregation or is that the open question at this point?

Barbara Hale stated are you talking about the actual dollar amounts? I apologize I'm not getting your point.

Commissioner Schmeltzer stated well, the customers were allowed to retain those contracts and sleeve the state without those additional customers. While I understand what the concerns are for aggregation and I understand that PUC hasn't taken a position on the aggregation bill. I am just wondering what the lesson is then to be drawn from?

Barbara Hale asked from the direct access experience?

Commissioner Schmeltzer stated yes.

Barbara Hale stated for me the lesson is largely a lesson in timing and understanding what it is. When you signed up as a direct access customer, there was no program for paying an exit fee. It's only an after the fact program for paying an exit fee. Because of that, I expect it will be hotly contested and litigated. Whether the Commission has the authority to impose it and whether any direct access customer would have to pay it. A lesson learned for community aggregation would be to understand the rules of the game in advance and understand whether there will be something comparable to an exit fee in any community aggregation program. I think it would be unfortunate for community aggregation to go forward without having a clear understanding of what other obligations you may be taking with you as you leave.

Mike Florio stated for our part, we oppose the Commission's decision to use the later suspension date for direct access, and we will also be vigorously advocating a hold harmless principle that when somebody leaves the pool of the DWR contracts, they should be obligated for their proportionate share of the costs so that nobody that stays with bundled service is worse off. That is a position we'll be advocating at the PUC and at the legislature. I think that concept is already reflected in the community aggregation bill. I am not sure what the latest language is. I think even last year when it was vetoed it had some language to that effect. We are supporting AB 117 on that basis.

Commissioner Fellman stated this is something we heard from PG&E this morning so it's an area where you are in agreement with PG&E.

Mike Floria stated accidents happen.

Commissioner Fellman stated I wanted to ask you and then if Mr. Florio wants to comment just on this concept of new load. What about new customers that are coming onto the system. Do you see them having the same liability for the exit fees?

Barbara Hale stated the Commission has not addressed that issue head on and I expect it will have to in the context of the exit fees calculation.

Mike Florio stated typically rate making has not made distinctions between new and old customers. The analogy here is the competitive transition charge that was assessed under deregulation and I think there was an assumption that customers come and customers go and everybody pays the rate, and the rate includes a component for historical costs as well as going forward costs. That's what I would expect to see come out of this. Now, there's always an exceptional case perhaps. I would be surprised to see a different set of rates for old and new customers. That would be somewhat atypical from what I am used to seeing in utility rates.

Barbara Hale stated I would agree, but I guess I took your question perhaps too narrowly. I thought I heard you say new load, not necessarily a new customer?

Commissioner Fellman stated that's correct.

Barbara Hale asked so that could be the same customer who has a direct access contract, but whose load increases?

Commissioner Fellman stated that is correct. Or it could be a new building that elects not to be a utility customer and would become a customer of the City and County of San Francisco aggregated service provider.

Barbara Hale stated and I think I was answering it thinking of it in terms of what if you already are a direct access customer and you're a commercial customer and you increase your business, you only have a certain number of megawatts under contract with direct access. Does that mean you can add your new load onto that direct access contract, which would have exit fee implications, or are you for purposes of that additional load still a bundled utility customer? I think the Commission has not confronted that issue yet.

Donald Maynor, Esquire asked what is the status of that exit fee proceeding? Is it just started or near the end?

Barbara Hale stated I think actually there is a workshop today on it. Workshops are under way and the Commission intends to address it expeditiously. We've heard proposals from the California Large Energy Consumers Association and others who have been making an effort to try to reach closure on this. They have every incentive to as we go forward.

Donald Maynor, Esquire stated we had a conversation with PG&E about what we used to call "stranded investment" and they pointed out in 1998, they were allowed to accelerate the depreciation of these so called uneconomic assets. Is that gone now? Is that complete? Or is that something that is now left over for these exit fees? Is that one of those issues that is going to show up there?

Barbara Hale stated yes.

Mike Florio stated and there are also some of the contracts with QF's had above market costs that are continuing on, and even in AB 1890 there was a provision for recovery of those after March 31, 2002. That will probably be an aspect of this proceeding as well.

Donald Maynor, Esquire stated this is a very important proceeding. It sounds like if San Francisco is interested in getting into this business and it may even relate to the state bill, because it is possible that they would tie in those non by-passable charges to what comes out of the PUC. Is that a possibility?

Barbara Hale stated yes, and that is why I have it on my list of recommended proceedings for the City to be engaged in. I think I have gone through the questions you had posed to me on paper. I'm happy to continue to answer questions.

Commissioner Schmeltzer stated there were a number of things that came up this morning in PG&E's presentation that I think some of us had questions on. I don't know if you'll be prepared or know the answers, but you may. PG&E this morning discussed the costs of their utility-regulated generation and what the cost currently is, and they described that as if I remember what they said correctly as 2 ½ to 3 cents per kilowatt hour for the Hydro and the Diablo.

Barbara Hale stated I would have answered that question in about that same range.

Mike Florio stated I wouldn't have expected them to.

Barbara Hale stated, yes it's a little bit surprising.

Mike Florio stated it tends to be a hotly disputed issue.

Commissioner Schmeltzer stated they also discussed their proposal to transfer their Hydro and Diablo out of the California state regulated utility in the bankruptcy proceeding and said that generation would stay under contract for twelve years at a rate of 4 ½ cents.

Barbara Hale stated I understand that to be part of their reorganization plan. Yes, that they have in putting together the reorganization plan, Pacific Gas and Electric Company has committed to what they represent as cost of service fees for the generation currently regulated by the Public Utilities Commission and under their

reorganization plan, would be spun off to an affiliate. While they make that commitment, there is nothing that in the reorganization plan that would prohibit them from selling the assets on the open market. Of course the PUC's underlying concern with the reorganization plan is that it removes from regulation, from consumer protection assets that ratepayers like us funded.

Mike Florio stated the only thing I reacted to there is the 4 ½ cent number because I think that over the life of the contract it's more like 5.2 cents on average. We've been as a rule of thumb saying that it would roughly double what we're currently paying for that generation just by changing the ownership of the assets. Obviously, that is something of great concern to us.

Commissioner Fellman stated with respect to the bankruptcy and what you have just described, Ms. Hale, I understand that the PUC has put in its own reorganization plan.

Barbara Hale stated the PUC will be filings its alternative reorganization plan on Monday.

Commissioner Fellman stated from the perspective of what we are looking at for the City and County of San Francisco, would it be your opinion that the transfer of these assets from the state-regulated entity to the corporate federally-rated entity, would that create greater risk of the power that's being procured as a result of the contracts that are going to be entered into? In other words we are looking at transfer of the assets. We have to see if PG&E is going to be able to provide reliable reasonable power to San Francisco and evaluate whether or not we want to enter into citizen aggregation of some form should that become possible. We are looking at the risk of the delivery of PG&E's power. Do you feel that creates a greater risk once the transfer occurs?

Barbara Hale stated I think PG&E's, Pacific Gas and Electric Company's plan for reorganization-it's tuff to follow all of the corporate entities when we all refer to them all as PG&E when they are very distinguishable. Pacific Gas and Electric Company's reorganization plan would face a tremendous amount of litigation which creates some risk, some uncertainty out there in the market place for the ability of it to really consummate its deal. Were the court to approve PG&E's reorganization plan, I see a tremendous amount of litigation. The PUC's alternative plan is a plan that is designed to avoid that litigation risk and to ensure that not only the utility reestablishes its creditworthiness, but also is able to continue to provide reliable electric service to Californians. In that choice that you have posed, I would say that the less risky world for San Francisco is what you are going to see on Monday's PUC plan. Now, were the PG&E's plan approved by the bankruptcy judge, I think then the primary risk is that of litigation of that plan and whether it could actually be consummated.

Mike Florio stated just an additional point, the chief Hydro power is one of the few advantages now of buying power from PG&E that you get that low cost power as part of the bundle. If they are allowed to mark that up to market value, I think virtually any advantage of remaining a PG&E procurement customer goes away, and everything is at market prices or higher. It's an irony in a sense that if they succeed in what they are trying to do I think it would eliminate perhaps the one remaining reason why someone would want to consider being a PG&E procurement customer because you'd lose that cost advantage of the cheap power.

Donald Maynor, Esquire asked what is the situation with Diablo? Are there decommissioning costs associated with the nuclear plant that would be included in exit fees? Is that a topic that even comes up? PG&E indicated that they thought that there is a fifteen year time period for decommissioning costs. I wasn't clear whether that reflected the actual life for Diablo Canyon or not. I was just curious as to how the nuclear plant fit into the equation of what we've been talking about.

Mike Florio stated there is some controversy over where they have already collected enough decommissioning costs. Some people feel that they have. Others feel that more will be required. I think that will be a litigated issue at some point in the future at the Commission. There is currently a non by-passable rate component for nuclear decommissioning that everyone has to pay. If there's a finding that its sufficiently funded, it's possible that might go away. There's also an issue in the bankruptcy about control over the decommissioning fund because PG&E is proposing to transfer that fund to the affiliate along with the asset. I believe they are now saying they would take away the PUC's remaining jurisdiction over that fund. There was some ambiguity about that at first. I think they are trying to take the fund to federal jurisdiction as well, which may potentially leave the state out of the picture entirely on that.

Donald Maynor, Esquire stated it sounds like you are very much at the whim of what happens in the bankruptcy proceeding before you can decide what kind of regulatory rules you will come up with for procurement and things like that with PG&E.

Barbara Hale stated I would say that at the PUC we are not waiting for resolution on the bankruptcy proceeding. The regulatory responsibilities and authority of the Commission has today, it's acting on. You mentioned procurement rules in particular. The PUC the assigned Commissioner just recently issued the scoping ruling on how it is going to go forward in making the transition from DWR back to the investor-owned utilities in procuring to meet the full customer load for each of the utilities in 2003. We are going forward with that and not waiting for a resolution in the bankruptcy proceeding.

Mike Florio stated although at some point, we could get into a situation where the PUC has procurement rules for regulated entities, but if PG&E is still in bankruptcy there may be a disconnect there that they are not creditworthy or able to actually take on the procurement. That is one of the items on my list of things the legislature

has to deal with this year is the current authority of the Department of Water Resources to be the procurer of the electricity for ratepayers of the investor-owned utilities expires the end of this year. I think it's becoming increasingly clear that PG&E is not going to be out of bankruptcy by the end of the year, which raises the question is DWR's authority going to be extended? Is another state agency going to be given that responsibility, or are we just going to collapse into chaos, which is always the default option on these things. The legislature so far this year, I think it's fair to say displayed issue fatigue on energy and has tended to stay away from dealing with it. This is one of those issues, as well as potentially the exit fee issue, that they may have to deal with whether they want to or not.

Donald Maynor, Esquire asked Mike, did you have some prepared comments that you would like to share at this time?

Mike Florio stated a few, but I would mostly just like to respond to your questions,

Commissioner Ammiano stated we are supposed to wind up at about 3:00 p.m. If people wanted to stay a bit longer and there is a quorum, I think it's fine. I have to leave at 3:00 p.m. for another meeting, and of course we want to get in any questions from the public too.

Mike Florio stated okay, I will be very brief. The ratepayers of California including San Francisco have essentially been through a blitzkrieg over these last two years. All the promises that were made about what deregulation would bring supposedly twenty-percent rate reductions and abundant choices, etc. etc. have pretty much all proven to be false. Rates are at their highest level ever and show previous little prospect of coming down soon. I think the only silver lining in this from a ratepayer's standpoint is it does create an opportunity for innovative local programs like community aggregation, or the solar development that the City is already moving forward with, local energy efficiency initiatives, things like that, that may provide a long-term way out of this mess. Obviously, if you go in that direction, it's the City taking on a set of responsibilities that traditionally have been handled elsewhere. Given how well they have or haven't been handled, I think there is certainly a lot to be said for the City taking a hard look at these alternative ways of providing electric service to their residents and businesses. The system that we have has not worked out very well for most consumers. With that, I would just offer to respond to questions. I know our time is limited, so whatever you would like to hear more about, I will offer my two cents worth.

Commissioner Fellman stated I have a really important question, and I think you are the best person to answer it. That is the whole issue of community aggregation that T.U.R.N. sponsored throughout the deregulation, lessons learned, advice, observations, twenty-five words or less.

Mike Florio stated community aggregation as we had conceived of it was not really permitted under AB 1890 because it required this customer by customer sign-up that

is very costly and really did not work out anywhere. So, Assemblywoman Migden's bill is really our first opportunity to try community aggregation. I think we certainly pushed pretty hard for it the first time around, but didn't have much support. I think in large part because the local agencies were just not, there wasn't a demand for it. It was an idea without a constituency. Now, I think the constituency is there in abundance.

Commissioner Ammiano stated we introduced it here previously and there was a lot of resistance and actually a lot of lobbying by PG&E to try and kill it. We did what we did and we did get it through. We then took our journey to Sacramento. Some of it was the lobbying but also some of it was people really not understanding what it really was. I had to be taught what the concept was. Then if you saw it in the bigger constellation, you thought this could be something very, very good. I think it was a sock initially and they thought no one would take advantage of it.

Commissioner Schmeltzer stated there was a discussion of PG&E's rates this morning, where they broke out the portions of their rates and what was made up. I wanted to go over what they said. They sort of told us what they thought were non by-passable rates. But some of it was a little unclear, so I am looking for some feedback. They said that delivery of electricity was about 25 percent of their rates. They said generation was about 70 percent and the generation was made up of QF's at 7.9 cents per kilowatt-hour, the DWR contracts at about 9.2 cents for O1 and O2 and the utility generation, Diablo and the Hydro, which we discussed earlier. They also said that the contracts they entered into in October of 2000 have been cancelled and there are no costs associated with that. I was wondering if there are any other pieces that were missing, and if the City were to aggregate rather than purchasing from PG&E, what pieces of that you would see as the City's remaining obligation? Then they said the final five-percent was the public purpose-programs, the public goods charge.

Barbara Fellman stated that was the one thing I was going to mention as missing.

Commissioner Schmeltzer stated and that was .04 cents per kilowatt-hour.

Barbara Hale stated I don't think I disagree with the general breakdown in these broad terms. But, I don't think I can really speak to what pieces, as you are saying, what pieces a community aggregator would have to pick up. Philosophically, my perspective on this is that you need to pick up your share, not your share of a piece, but your share. For me it's not an issue of yes or no to delivery or yes or no to generation, it's yes to all of them, and the question is how much of each. Otherwise, you would be leaving behind costs that were incurred on your behalf for others to pay.

Commissioner Schmeltzer stated I think my question was really focused on the generation piece and the DWR contracts I think I generally understood to be something that everybody is going to carry a piece of it in some way. It was not

clear whether the QF's were, maybe you can help me with the terminology that was used with the QF's and the stranded costs this morning.

Donald Maynor, Esquire stated I was just thinking about my next question. I wasn't following.

Commissioner Fellman stated what they talked about with the QF's is what Mike said, the continuation costs of the stranded assets from the initial AB 1890 allocations.

Commissioner Schmeltzer stated it was not clear whether that was still out there or not.

Mike Florio stated I think there is still a question about that. I also thought the 7.9 seemed a little bit high to me currently.

Commissioner Fellman stated he took that from the 5.37 plus the capacity cost for a five-year block.

Mike Florio said okay, because the gas-fire QF's I think are probably less than that now. I think there is some degree of an open question on how QF's and renewable QF's in particular might be treated. I think there is also a question of whether you look at QF's alone, or if you bundle together QF's with the cheaper utility-owned generation, and look at whether they are any excess costs once you average them together. That I think has really not been resolved yet. The legislation may address it. The Commission proceeding will probably have to address it in some fashion. I think on a going forward basis, there will probably be some kind of provision. The mechanics of this has not been worked out. If there is an opportunity for people to leave and that opportunity is not taken, and the utility goes out and signs some new long-term contracts; we call these the coming and going rules that there may need to be an open season or something that you can leave. If you don't leave at that time you're committed to some period of time to some costs. That still remains to be worked out.

Barbara Hale stated there may be some parallels that may be drawn between electric and gas. There have been options for gas customers to take advantage of aggregation programs historically. They haven't been programs that have been utilized a lot, but there may be some models there that the Commission would rely on and the City may want to look into.

Commissioner Fellman stated I had to be out for a bit. Did you discuss the Jefferson Martin transmission line at all?

Barbara Hale stated briefly, yes.

Mike Florio stated that is coming up soon at the ISO, and I think we agreed that the need is pretty clear that the question is going to be siting because nobody wants a transmission line in their neighborhood, but everybody likes to have the benefit of it. So you have a tension there that the PUC has the unenviable task of sorting out.

Commissioner Fellman stated did you ask about alternatives?

Barbara Hale stated I had offered that. Before PG&E settled upon the Jefferson Martin option as the option they will present in the fall before the PUC, there was a working group that involved the ISO, the City, the PUC, where a number of options were evaluated. I am happy to talk about that further if it's helpful. In the context of what they actually filed before the Public Utilities Commission, they will be required as is required under CEQA, they will be required to file alternatives to the particular route they prefer.

Mike Florio stated generally, I have heard positive feedback about this process that was carried out to select Jefferson Martin, and you know if there are folks that feel that wasn't a good process I would like to hear about that. Because generally, it seems as if people were satisfied that good information was provided and public input was taken heavily into consideration. Before the ISO votes on this, hopefully anybody that has concerns will let me know on that.

Donald Maynor, Esquire stated Mike, you said something interesting to me that brought back a lot of the things we used to talk about in the old days. That was the importance of having a competitive alternative to PG&E. Out of this chaos, maybe there's some opportunities for communities to come up with some creative new ideas. I think it is beneficial that those things happen because communities oftentimes, that was the case in Palo Alto, where they would come up with some unique conservation programs. Then, PG&E could see the benefits of those programs. There are some advantages of doing that. I think it would be useful if T.U.R.N. and the PUC could recognize the benefits of seeing that it is necessary for communities to have more flexibility to do some of these things and engage in these activities. To the extent that the PUC can avoid creating impediments through exit fees. I understand some of that has to happen. There should be some discussion on that and maybe the burden is on the City to bring these issues out. There are real benefits in your role as a regulator to have some competition out there in terms of, here, are some alternative programs. We have heard a lot of testimony from SMUD and others, and it is very enticing to hear what some of these other municipal utilities are doing and are able to do. At the same time, we would hear testimony from some of the folks from distributed generation, energy efficiency. They say you know, there may be a lot of potential here in San Francisco, but no one's ever done an audit and really identify what the possibilities are.

Barbara Hale stated you know Don, the City has taken advantage of an energy efficiency program that the Public Utilities Commission offered. That was to fund to

the tune of about eight million a small commercial lighting pilot program here in San Francisco.

Donald Maynor, Esquire stated we heard about that this morning.

Barbara Hale stated I think that sort of model taking advantage of that creates the competition, if you will, that you are talking about where you get to determine your own energy destiny without taking on the full risk of providing for your full load yourselves. There are other examples. For example, in San Diego County there is a regional energy office that has tried to work with various local government entities to duplicate good programs throughout the county. So there are some partnering opportunities there, there's public goods charge funds available that are administered through the PUC that you folks should be taking advantage of and did this last program year.

Donald Maynor stated we have heard testimony to that effect. I was thinking more in terms in the procurement area where there are so many question marks. If the opportunity, particularly if things don't evolve--Mike was talking about well, if that doesn't happen or if this doesn't happen, chaos could rule again. It would be useful to have as an alternative a realistic and effective option such as aggregation that doesn't have arbitrary impediments because I think that may be something that even you would want to see happen as well as a regulator. It's just a comment. As we are getting near the end of these public hearings, we start to get a feel for what the options are for municipalities today, particularly with all these open questions. That was just a thought that I wanted to share. Now would be a good time to have any questions from the audience.

3. Public Comment

Denis Mosgofian, San Francisco Labor Task Force for Public Power stated I am a life-long resident native of San Francisco. I'm formerly president of one of the newspaper presses local in San Francisco. I raised by kids here. Those are by way of credentials. I was active in the public power campaign last year and am on the Labor Task Force for public power. I had a question specifically the question that I wrote out for the CPUC representative, Barbara Hale. Given the recent vote by the CPUC, 3-2 to let stand existing direct access contracts, if I understand it correctly, that shifted the burden to those who remained, and yet the contracts were allowed to stand. Notwithstanding the discussion subsequently of an exit fee, is it not the case that your position as you described it generally that CPUC's concern about shifting the burden, isn't it the case then that that amounts to opposition to aggregation because that would continue to shift the burden away from DWR contracts. Doesn't that constitute a way of fixing the larger share of the burden on residents, small businesses and local users that are not the big users that took off on direct access?

Barbara Hale stated yes, the effect of the shift is that the remaining customers, who are small business, commercial and residential customers largely, the direct access program has taken advantage of by large commercial and industrial customers. That does leave the burden on those who are traditionally least able to pay.

Denis Mosgofian stated so it leaves the question when you opened you opened at the CPUC's charge is fair and reasonable rates, and yet there is nothing fair and reasonable when big users get to opt out and then restrictions are imposed leaving the rest of us holding the bigger portion of contracts that were ill-advisedly entered into for longer periods of time at higher rates than they should have been entered into by the Davis administration. I'm not Republican or Democrat. I am not involved in that. I'm just saying that is where you look at it. I will get to the point on LAFCo. I like your comment. I do not see an alternative with the CPUC's approach. That represents the larger number of us.

Barbara Hale stated I think what you have just described is largely why the vote for that item was a split vote. It's not an easy issue to resolve. When you have these shifting of responsibilities and costs as you describe them accurately, it's a controversial and difficult decision for the Commission to make. The real devil will be in the details in how the exit fee is calculated and assessed.

Denis Mosgofian stated let me go back to something you said. I think it was you. I thought it was you that said that the real risk of the PG&E's Plan of Reorganization is in the risk that would arise from litigation.

Barbara Hale stated I was saying that there is a lot of risk associated with that plan because it will be litigated if it is approved by the court.

Denis Mosgofian stated would it not be the case then that there would be equally a risk with such a hot button or a controversial subject such as exit fees and a sort of an after the fact program that would end up in litigation and benefit very few of us?

Barbara Hale stated yes, I believe I pointed out that I expected whether the Commission had authority to assess an exit fee would be a litigated issue.

Denis Mosgofian stated let me go to my comment to the LAFCo. I'm a strong advocate for public power, and I believe that the Carol Migden's bill for aggregation and what Mike Florio described as T.U.R.N.'s position in previously advocating for it provides a basis for San Francisco to begin to get into the ability to have local control as Ed Smeloff likes to talk about it in the Electricity Plan that he's shopping around San Francisco. I think that there's a risk here, and I think that's why LAFCo if I understand your charge correctly you are in the business of trying to crunch the numbers and figure out what the feasibility is of more local control and even public power in San Francisco. If I understand it correctly, then I will proceed. Is that approximately right?

Donald Maynor, Esquire stated I'm not sure that's quite accurate. It's an investigation of the alternatives and the options. One, if it makes sense to go to the next level and actually crunching up numbers would be one of the steps down the road. I think the initial phase we are going through right now is gathering information, finding out what the issues are, what the risks are, and then to put together a report that would provide an information base which LAFCo can make recommendations on and the City would have a basis for making decisions. The one thing by the way, this is atypical for a person to come up and engage in the conversation. We typically just have the questions written out. One of the issues that we are going to talk to the Commission about next week is to have a public hearing to allow members of the public like yourself to come in and make statements and ask questions and that sort of thing. So, we're at 3:00 right now and I didn't want to preclude you from asking questions, but our format in the past has been to submit the written questions. Even if you want to submit them afterwards, we are happy to get the answers for you.

Denis Mosgofian stated I understand the process, but the problem with that sometimes is that is difficult to put exactly in writing in a concise enough way to make it easy, a question that really is part of a bigger picture or context in which a remark might be made. My remarks couldn't have just been summarized by one simple question. I think given that your mandate is to look at options and look at the issues, I think LAFCo needs to look at a very large picture here because the way it is being set up in San Francisco now, the way it has been unless it is recommended that we really look at the option of having both local control and public ownership from generation forward, we will ultimately end up with the manipulations of the market, the rather weak positions that end up coming from the CPUC in terms of representing ordinary folks and small businesses, the bulk of the people, and we will end up being manipulated by the Mierans or PG&E like they're doing now with through their bankruptcy process. So, I am likening it back to what was done in the 1930's when we were at the depths of depression and very difficult times in this country for a variety of reasons. The government chose to commit itself to really build infrastructure that has served the country in many areas including the area of electricity generation and distribution for the last sixty-five or so years. I would suggest that LAFCo needs to be thinking in terms of that magnitude of a contribution. I will in fact participate in the future.

Donald Maynor, Esquire stated I think you made a strong argument in favor of having a public hearing. We'll bring that up on the 19th and see what the Commission decides to do on that.

Denis Mosgofian asked is the 19th hearing here at the same time?

Donald Maynor, Esquire stated 2:00 p.m. Any other questions for our panelists?

Commissioner Fellman stated I have no further questions. I do appreciate the last gentleman's comments, and we are taking that issue under consideration because that is something that is on the agenda here for LAFCo so it will be considered.

Public Comment closed.

4. Adjournment

Donald Maynor, Esquire stated I want to thank you both for coming here on short notice. It is very much appreciated. You gave good balance to the whole day.

The public hearing of the San Francisco Local Agency Formation Commission adjourned at 3:05 p.m.

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**San Francisco
Local Agency
Formation Commission**

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AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

**Special Meeting
Friday, April 19, 2002 at 2:00 p.m.
City Hall, Legislative Chambers, Room 250**

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA
(There will be public comment on each item)

1. Call to Order and Roll Call
2. Approval of Minutes of the Public Hearing on March 22, 2002. Action Item.
3. Interview of Applicants Who Responded to Request for Qualifications for San Francisco Local Agency Formation Commission Energy Consultant(s) and Selection. The applicants are:
 - Flynn and Associates
 - Henwood Energy Services, Inc.
 - R. W. Beck
 - EES Consulting
 - Navigant Consulting, Inc.

4. Discussion and Authorization to the Executive Officer to request release of reserves in the amount negotiated for the contract to provide energy consultant(s) services.
5. CLOSED SESSION

CONFERENCE WITH LEGAL COUNSEL

Motion that the San Francisco Local Agency Formation Commission convene in closed session. Conference with Legal Counsel - Anticipated Litigation: Significant exposure to litigation pursuant to subdivision (b) of Section 54956.9. Claimant: E. J. Simpson (copy of claim is available for public inspection) for the purpose of conferring with or receiving advice from legal counsel.

Question: Shall this Motion be ADOPTED?

PUBLIC COMMENT

ADJOURN TO CLOSED SESSION

After a closed session, if one occurs, the Chairperson shall (1) request the Legal Counsel to identify the subjects discussed in the closed session, and (2) direct the Clerk to report the vote taken on any motion in the closed session.

[Elect To Disclose]

Motion that the SF LAFCo finds it is in the public interest to disclose information discussed in closed session, and directs the Chairperson immediately to disclose that information.

[Elect Not to Disclose]

Motion that the SF LAFCo finds that it is in the best interest of the public that the Board elect at this time not to disclose its closed session deliberations concerning the litigation listed above.

RETURN TO OPEN SESSION FOR ANY REPORTABLE ACTION

6. Future Agenda Items
7. Public Comment on Items not on the Agenda
8. Adjournment

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee Clerk of LAFCo, San Francisco Board of Supervisors, 1, Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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Both the Committee Room (Room 263) and the Legislative Chamber are wheelchair accessible. The closest accessible BART Station is Civic Center, three blocks from City Hall. Accessible MUNI lines serving this location are: #42 Downtown Loop, and the #71 Haight/Noriega and the F Line to Market and Van Ness and the Metro stations at Van Ness and Market and at Civic Center. For more information about MUNI accessible services, call 923-6142.

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**San Francisco
Local Agency
Formation Commission**

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MINUTES

Special Meeting

Friday, April 19, 2002, 2:00 p.m.

City Hall, Board of Supervisors Chambers, Room 250

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick

Members: Commissioners Ammiano, Hall, and Schmeltzer

Alternates: Commissioners Peskin and Fellman

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chair Gonzalez at 2:10 p.m.

Members Present: Chair Gonzalez, Vice-Chair McGoldrick; Commissioners Ammiano, and Schmeltzer. Commissioner Hall was noted present at 2:15 p.m. Commissioner Fellman was noted present at 2:22 p.m.

2. Approval of Minutes of the Public Hearing of March 22, 2002. Action Item.

Chair Gonzalez stated there was a motion to move the item. The minutes were unanimously approved with no discussion and no objection.

No Public Comment.

Public Comment Closed.

3. Interview of Applicants Who Responded to Request for Qualifications for San Francisco Local Agency Formation Commission Energy Consultant(s) and Selection. The applicants are:

- Flynn and Associates

- Henwood Energy Services, Inc.
- R. W. Beck
- EES Consulting
- Navigant Consulting, Inc. (withdrawn)

Chair Gonzalez stated Mr. Maynor, we were just speaking briefly a moment ago before the meeting began about some of the considerations that we should have a discussion about before we discuss this item.

Donald Maynor, Esquire stated it might assist you in asking questions and hearing the presentations of the various consultants, to give some thought as to what the study should look like—where you are going with the study. So, I put together a draft with the hope of having a “talking” document, and if it suited your purposes, if this is a document that captures the direction you want to go, then that may assist you in asking questions of the consultants.

Briefly, the idea in the Executive Summary is to address three key issues from the public hearing process that are driving the interest in this matter. That's the high prices, the question of reliability, shortages, and also this matter of local control, being able to have some control over these programs. Then the question becomes when you look at “utility service” what makes up utility services? There are a lot of different pieces to it. What the study might do is help identify by looking at these various pieces, to what extent they are going to have an influence on those key issues.

Then you might want to consider what your options are with PG&E, having the City doing this, or to form a Municipal Utility-Utility District. By doing that, you could reach the conclusion that, if you want to pursue some of these issues because they are important to the City, what would be the best vehicle for doing that? The reason why the Executive Summary recommends this approach is that some of these issues are very complicated. Some of the testimony we have heard, you really cannot know the economic feasibility of doing certain things. For example, the FERC hasn't decided how they are going to do transmission rates, or you don't know what the PUC is going to do with respect to generation and power purchases. It may be impossible in a very short time period to answer all of the questions.

What I think you can do at this time is gather the information that you already have heard in the public hearing process, and identify the issues, how important they are, and to what extent the City of San Francisco could exercise its constitutional right to form a Municipal Utility or Utility District or just using its City powers to address some or all of these issues. I think that is the best thing a study can do is go through that and also, generally go in to each item and talk about what the implementation steps would likely entail as well.

Commissioner Schmeltzer stated I think that's a good summary and a good start. It seems to me that based on the information that's already out in the form of other

public reports and on the information we already have in the record here, what we would really want to focus on is what would be involved in each step for generation, distribution, efficiency and conservation programs, and transmission. We need a study that would show the costs and steps necessary to take to provide those services and on each of those, which would require the fewest resources and the fewest further studies, and which ones would require the most legal and other resources.

Donald Maynor, Esquire stated it would depend on the nature of the item. Some of these would involve very complicated analyses like generation. If you would consider all of the generation options, and they change over time, it's not always easy to do them. That's why I wanted to emphasize creating the vehicle for pursuing these options as your first step, assuming that these issues are important to you and you want to exercise some self control in reviewing these issues. It may not be possible to do a thorough study on every one of these. I think we could describe generally how you would go about that, whether it would be a complicated study, and what that may involve.

Commissioner Schmeltzer stated that was exactly what she had in mind. What we want to do is focus on identifying what steps need to be done so we have a blueprint laid out because we have limited time and more limited resources.

Donald Maynor, Esquire stated I think when you get into feasibility studies and starting to cost things out, they become much more complicated and take more time. I'm not sure it is necessary for you to do those now. Having some general idea or a pretty good idea as to what that would entail would be very useful. That was the intent of this kind of study. We'll talk about all these issues, look at the options and also tell you what the next steps would be to pursue them.

Chair Gonzalez stated what I hear Commissioner Schmeltzer saying is that, essentially, what we get back from our consultant we don't want to simply be a rehash of what is available to us if we just went to the public library or made a request for certain documents. How can we be assured in this process of interviewing consultants that we not only communicate our interest in having a certain unique component in this study, but that we're capable of giving them a directive that they will be able to understand and bring back to us?

Donald Maynor, Esquire stated let me give you one suggestion. I think I have told you in an early stage that my recommendation initially would have been to hire more than one consultant. After we met with the various consultants, I think that confirmed my sense that each one has some strength. I would like to bring the consultants in the room and go over the study and find out what kind of resources, what kind of ideas or thinking they would bring to bear. Not simply as you pointed out gathering information that's readily available in a lot of these studies, but information that in particular is more locally specific to San Francisco and the issues they need to face. I think you'll find in doing that, that some consultants will have a

lot of information in a particular area that would be useful in an analytical sense, and others may only have the general information. You really don't know until you sit down and get them in the room and say okay, here's the scope of the study--whose got what, who has the capabilities? Let's talk about, or brainstorm, in terms of ideas. One possibility would be to then come back to you with a proposal with what the study is going to look like, what it will cost, and who is going to be doing what. That was my thought on how to approach it.

Commissioner Schmeltzer asked are you speaking of a time other than today or beyond today?

Donald Maynor, Esquire stated yes. Let's assume that you wanted to hire more than one consultant then the next step would be, what are they going to do, because they all probably want to do the whole report. It would be necessary to sit down with them and go over in view of what you decide today in terms of what the study should look like. We would sit down and go through it in some detail and talk about which consultant has readily available information, specific information, and ideas. There may be some areas where you would want more than one consultant to share their input. We would come back to you after that one meeting with a pretty good idea of an outline of who will be doing what and hopefully, they can come back with some cost estimates as to what it would cost to provide those elements of the study.

Commissioner Ammiano stated I like that idea because in going over everything and questioning and listening, it seems to me that more than one consultant is not necessarily a bad thing, particularly once we decide what area each would focus on.

Chair Gonzalez asked, Mr. Maynor how do you suggest we proceed on this?

Donald Maynor, Esquire stated my recommendation would be to have the consultants make a brief presentation regarding their qualifications. Hopefully, some of these comments were of assistance to you, and then you would be allowed to ask questions. Keeping it informal always works best. I know some of you have some prepared presentations, and others indicated they would be able to make their comments in a rather brief manner. Then following that, we could have a discussion and talk about recommendations as a result of the work that Ms. Miller, Ms. Young and I did in meeting with the consultants. We would share our thoughts and then you could make some decisions.

Chair Gonzalez asked shall we just go down the list? Was there any time constraint that we need to accommodate?

Donald Maynor, Esquire stated I believe Commissioner Ammiano indicated that he would need to leave at 3:30 p.m.

Commissioner Ammiano stated yes. So given the fact that we have about an hour and there are four consultants, about fifteen minutes would be appropriate.

Chair Gonzalez asked and is it your thought Mr. Maynor, that the decision about the consultant would be based on this interview alone?

Donald Maynor, Esquire stated you've been given some materials. By the way, we're very pleased with the quality of the consultants. They are all outstanding. By the way, Navigant I should announce has withdrawn. I believe you have received a withdrawal letter from them. They expressed their regrets. We had some outstanding responses and the references all checked out very well. So I am not sure, other than the materials that you have seen from the process. I'd be happy to answer any specific questions you may have that came out of the interview process. Maybe it's appropriate first to hear from the consultants.

Chair Gonzalez stated I think we can leave open the question of whether or not we feel that this interview alone is enough to make the decision. We can always invite individual consultants back or obviously, we can confer on this. When the individual party steps forward, perhaps you can tell us how long your presentation is. I think we can accommodate fifteen to twenty minutes. If Commissioner Ammiano has to leave, our alternate Commissioner is here, Diane Fellman. We would then be able to continue the meeting, and he can certainly see a replay of the presentations.

Donald Maynor, Esquire stated one other comment for the benefit of the consultants. It would appear that there's going to be a lot of work to be done in the next two or three months. I think there's a draft report that would be expected by the end of June. One question that you might want to consider is your ability to have available resources to commit to the project.

Flynn and Associates: Mr. Chairman, Commissioners, my name is Doug Boccignone. I am a principal with Flynn and Associates. We have prepared a presentation to guide our discussion to illustrate our expertise in the energy business, talk about what some of the key issues are, and how we might help the City address those. What I'll do is give an overview of those key issues and of our experience. Mr. Flynn will come up and talk about specific examples of projects we have previously worked on and are currently working on for the City and other Bay Area municipal utilities in the energy business.

A key issue is the access to transmission, particularly in constrained areas like San Francisco for reliability purposes and also access to low-cost supply. There's a couple of proceedings that are going on right now at the California Independent System Operator and also at the Federal Energy Regulatory Commission that are going to have dramatic impacts on the cost of delivering energy, particularly in constrained areas like San Francisco. The specific issue I think is going to be the proposed locational marginal pricing model, which is the standard preferred by the FERC, and the California ISO is supporting that in their market design efforts. That's going to put a big need and also motivation to upgrade transmission to be able to

access low cost power and find other ways to mitigate potential high market clearing prices, particularly in the Bay Area and the Peninsula.

The City has some experience with utility interconnection agreement issues going back decades to deliver the power from the Hetch Hetchy project to the municipal loads. If you go down the path of municipalization, there will be other interconnection agreement issues that will need to be addressed. Agreements with either the California Independent System Operator for the wholesale access tariff and or agreements with Pacific Gas and Electric. Of course any municipal utility has to deal with energy supply issues, investigate alternatives whether its conventional or renewable resources, conservation, federal preference power, and also third party contracts. A key issue given the volatile energy markets that we're facing, is how do you manage the energy price risks that are out there in developing your portfolio supply resources? That kind of highlights as what we see as key issues. By no means is that an exhaustive list.

We've chosen to highlight those areas where we have the most experience and expertise and where we think we can help out a lot. I guess I would echo what Mr. Maynor said. I think it would be difficult to find any one consultant who can cover all of the issues that you need. In fact, we did not propose to cover all of the issues. I think where we add the most value is in providing strategic advice to policy makers and top management on energy-supply issues. We've been doing it for years. Mr. Flynn has over fifteen years of experience as a consultant. I have over eight years. We've both been executives of Municipal Utilities and also for private companies. Before I turn it over to Mr. Flynn, I would just highlight one other area, which is experience with formation of joint action agencies and operation of joint action agencies. I think there is a good chance that if you do go down the Municipal Utility route, it will involve some form of joint action as was anticipated in previous efforts. I think that's an area where both of us have a significant amount of experience. I would like to turn this over now to Mr. Flynn. He's going to highlight some of the specific activities that we've done and conducted for the City.

Commissioner Schmeltzer stated I understand you have experience with the City and County of San Francisco and have knowledge of the City system. Could you talk a little bit about it and whether there are any conflicts or other issues that might bring?

Mr. Boccignone stated I will turn that question over to Mr. Flynn, and maybe the both of us can answer that.

Mr. Flynn stated when we received the RFQ we wondered the same thing. We have been doing work for the City for six years. Basically, fought through the issues with regard to the work that we're doing, which are basically the increase of reliability and reduced costs. Although we work with various City staffers, our contract is through the City Attorney's Office. I checked it out with the City Attorney's Office who thought there was no problem. We came to the conclusion that there was no

problem and that our expertise and intimate knowledge of the City's issues would be very useful to LAFCo.

Commissioner Hall asked, do you have existing contracts with the City now?

Mr. Flynn stated yes, I do.

Commissioner Hall asked, how many different contracts have you got going at present?

Mr. Flynn stated one contract.

Commissioner Schmeltzer asked, could you then just say what the contract is for?

Mr. Flynn stated it's to work on areas where I am assigned tasks by the City Attorney's Office. As I go through this next couple of minutes telling you the work I've done for the City, you'll know specifically what we had been doing. This has been a multi-year effort. They are all not spelled out in the contract. What I've tried to do, and you can well imagine there may be twenty-five issues or more that we've been involved in so I am going to try to talk about the ones that I think are most critical to your efforts here at LAFCo.

As Doug explained, we are now currently representing a group of municipal entities that are worried about locational marginal pricing issues. That's a current thing that is going on. Doug went to some meetings yesterday that are very important. Our experience in that area goes back a number of years. As to when the ISO was first formed as part of the initial architecture of the ISO, they proposed various zones, and there would be pricing based on each zone. They had a zone for the Bay Area, one for the Peninsula, and one for San Francisco. The prices would be set based on the marginal bid in each of those zones. At the time it went before the ISO, it was reduced to four zones. A couple of those zones were Humboldt and San Francisco. We were successful in working first with the Trustees Advisory Committee of the ISO and then with some FERC proceedings to essentially change the San Francisco zone from an active zone into an inactive zone. I know these are probably new terms. Basically, by making it into an inactive zone, we became sensitive to the same price that all of Northern California sees, rather than the one that was specific for the City.

I have represented the City in a number of stakeholder processes with regard to transmission. I would say that transmission has been one of the key focuses of our efforts for the City. One of those was the long-term study group to develop a long-term plan to serve the City that went on for a year and a half. It ended up supporting PG&E's submitting or doing the permitting work to submit an application on the construction of a Jefferson Martin 230 KB line that would be a major increase to transmission in the City and a major increase in the reliability of the supply. PG&E

intends to file with the PUC a Certificate of Public Convenience and Necessity later this year in September looking for an operation date in 2005.

Commissioner Schmeltzer asked, that's the Jefferson Martin transmission line?

Mr. Flynn stated right, that's the Jefferson Martin transmission line. That was a specific stakeholder group focused on the long-term transmission needs in San Francisco. There is also an annual process that PG&E goes through to try to determine what transmission is needed for their system as a whole. I have been participating in that process since it was started about three years ago representing the City's interests to get additional transmission built into the City and also into the Bay Area of which the City is a part.

Right now, Flynn and Associates is representing the cities of Palo Alto and San Francisco in some discussions with regard to advancing a 2800 megawatt transmission addition into the Bay Area. This is something that PG&E in their long-term plans has recognized a need for. Load has dropped off. They are thinking it wouldn't be needed right away. At the CPUC's direction, PG&E is having discussions studying the economics of advancing that so that it would be constructed before it would normally be needed for reliability. Basically, what are the economics of building it quicker and what kind of savings would result?

I've been a member of the Planning Standards Subcommittee that develops the standards under which the transmission owners like PG&E test the performance of their transmission system. One of the standards that was created during that time period was the standard to depart from just looking at one generator out in one line out and saying you have to serve load under that situation to a separate standard for the Bay Area where they look at simultaneously having four generators out. That has resulted in an acceleration of transmission in the Bay Area.

We also assisted the City in a stakeholder process to determine the methodology of access fees or transmission costs in terms of recovering the embedded costs of that transmission. That has gone through many phases. The City proposed a methodology that would break the state up into areas and have a common access fee for each of those areas. The ISO ended up proposing to FERC something similar that called them tack areas, and the current proposal will transition into a statewide access fee over ten years.

You are probably familiar with the fact that on December 8, 1998, the City had a major outage. The whole City went down. Some people were out for as long as eight hours. The CPUC started an investigation in terms of reliability of supply to San Francisco. We had been assisting the City Attorney's Office in representing the City's interests as part of that proceeding. The proceedings had gone through everything from maintenance practices to protection system issues to design issues with regard to the adequacy of the transmission system. I believe it has resulted in PG&E proposing some changes in the way they do things. Specifically, have

proposed a method of restoring load to the distribution system even if the total transmission system has not been brought back into service that I believe will decrease restoration time, make it quicker to bring the load back. They've also proposed what is called a remedial action scheme or a special protection system that basically will reduce the scope of outages if something happens above the normal planning practices.

Mr. Flynn stated the only other area I was going to bring out at this point in time is we have provided some assistance with regard to issues in terms of the current contract that San Francisco has with PG&E to deliver power from the hydro projects to the municipal load. Specifically, helped interpret that contract in the best way we could to try to make it operate under an environment of the ISO control of the transmission system that was never envisioned when the contract was negotiated. That about covers what I thought was the most important things that we have worked on that would be applicable to cost and reliability of service to the City that we think is part of the overall issue that you people are having to deal with. I would just reiterate to what Mr. Boccignone said and we told the panel is we could perform a critical service in some of the areas. We would not want to propose to do the whole study. Thank you very much.

Chair Gonzalez stated Mr. Flynn, the advice that you have given related to the municipal load, that was with the Turlock Modesto contract?

Mr. Flynn stated I was referring to the PG&E agreement, the transportation of the power from the hydroelectric project to Turlock and to Modesto and then onto the City to serve municipal load.

Chair Gonzalez stated I understand, we are talking about the same thing. That was advice you had given to our City Attorney then?

Mr. Flynn stated yes.

Commissioner Schmeltzer asked Mr. Flynn, you had said that you believe that your firm would be able to address parts of the study, but not the whole thing?

Mr. Flynn stated yes.

Commissioner Schmeltzer stated what we just discussed here was laying out the steps that would need to be taken for in a number of areas including generation, distribution, energy efficiency and demand reduction programs and transmission. So for each of those areas, which areas are you saying that your firm would be able to provide services to the City?

Mr. Flynn stated I would envision a team of consultants that could possibly add things in various areas. I would see our focus as being transmission and energy supply. Those two are intimately tied together. Because if you don't produce the

energy locally, you buy it someplace else, you have to get it to the City. I would say energy supply and transmission would be the areas we would propose to focus on.

Donald Maynor, Esquire asked would Mr. Flynn's firm also have expertise in distributed generation?

Mr. Flynn stated yes, we have done some distributed generation studies. I would say the closest thing in terms of real experience was during the time I was director of Electrical Utility for the city of Santa Clara, we signed a steam sales agreement and installed three megawatt gas turbines to produce the first city owned electricity and sold steam to California Paper Company over a multi-year period. I would call that distributed generation.

Commissioner Fellman asked do you have any experience with municipal utility structures? I believe both of you have worked for municipal utilities?

Mr. Flynn stated yes, I was the director of Electric Utilities for the city of Santa Clara for ten years. During that time period many joint action agencies were formed like the MSR, NCPA, CCPA. Doug headed up the Resource Planning Department for the city of Palo Alto. So we both have been intimately tied in with the municipal community both from the standpoint of employees or executives with those entities. The majority of the work for fifteen years, I have been a consultant. I have also been with municipal utilities for the last six of those years where San Francisco has been a major client of ours.

Commissioner Fellman asked would you be prepared to assist the LAFCo in the process of analyzing the possible structures that could take place with regard to public power agency formation in the City and County of San Francisco? Would that be another area?

Mr. Flynn stated absolutely. That certainly wasn't the focus of the six years of work we've been doing with the City. That's been the City's relationship between the hydroelectric capacity and its City load. In terms of formation of a district. Basically, those ten years as director of a utility, it was for a chartered city where we supplied all the distribution needs within that city. The particular form of a government that I was part of was a City Council, City Manager form of government. But to the joint action agencies, I've seen various forms where the City Council has a Utility Commission. There was a Utility Commission in Palo Alto where Doug worked. I would propose that we could provide some real experience in terms of sharing our thoughts on what worked best in certain situations. I don't think there's one way to do it. We have seen how it's worked very well for some cities, certain kinds of structures. A lot of what you are dealing with when you are talking about structures in terms of what your alternatives are, are more legal than technical. So far, I would say a large part of it will come from Don Maynor or other kind of legal assistance. In terms of real world working experience, what we're able to accomplish with a

chartered city and what potential restraints we had, I think we could be very helpful in sharing those with the Commission.

Chair McGoldrick asked Mr. Flynn, how familiar are you with the PG&E bankruptcy case?

Mr. Flynn stated that has not been an area where we have spent a lot of time on. I'm maybe more familiar than you are. I don't know how much reading you've done, but that is not an area where we've been hired to participate directly.

Chair McGoldrick asked my other question was how familiar are you with the California Public Utilities Commission's policy regarding power purchases?

Mr. Flynn stated pretty familiar with that, and Doug is more familiar with regard to the proceeding and what's proposed for the future in terms of having the what's called the local serving entities. We always have these acronyms, like PG&E to go out and buy long term for the needs for their customers.

Mr. Boccignone stated clearly a key issue in California is how load serving entities meet their obligation to serve load. CPUC has been undertaking this process on the procurement side, and right now there is a big battle between the system operator, who wants to have what they call an available capacity obligation on all load serving entities and the PUC who wants to maintain state control. It's not clear exactly how that is going to turn out. I think the one thing that is clear is that municipal utilities in the past and in the future have maintained and met their obligation to serve by putting in capacity that's needed. The issue is if a MUNI is going to meet its obligation, but the majority of the load is served by a private utility and they don't meet their obligation, then we've got a big problem.

Vice-Chair McGoldrick asked how do you understand the idea around the whole concept of aggregation?

Mr. Boccignone asked for retail aggregation on the retail side? Big history behind this.

Commissioner Fellman stated I think our emphasis is not just the retail customer but on community aggregation.

Mr. Boccignone stated I think clearly, community aggregation is an interesting option to be pursued because it doesn't involve as many issues as acquisition of the distribution system, condemnation, and those types of issues. Clearly, an important factor that will affect the ability and the profitability of such an activity will be the retail rates that govern that. I think right now it's not completely clear the direction that that's going. It is going to take a lot of political pressure to get that shaped in a way that makes it feasible for communities to do community aggregation.

Chair Gonzalez asked Mr. Maynor, any other questions that we should ask?

Donald Maynor, Esquire stated I think the only question is your availability to expend some of your resources in the next ninety days. I think you have already commented on the fact that you are open to the idea of participating on a shared basis in this study. So availability of resources in the next ninety days?

Mr. Flynn stated we certainly are available to contribute to this effort and of course, even if you wanted to, we wouldn't have enough time to put aside to do the whole study. If we were part of a team, we would not make a commitment to do more or to do a share as part of that team that we could not perform to meet your time schedule.

Chair Gonzalez asked Mr. Maynor, do you think we should be inquiring specifically about a consultant's previous participation in expert testimony around condemnation or anything like that?

Donald Maynor, Esquire stated that would be a second phase that would come out of this study. If you formed a utility and wanted to pursue some of those things, that would be a separate complicated feasibility study. Although I might add, some of the consultants have more expertise in an area that would be helpful in describing the process in the key issues. Again, getting some of the detail of what the process entails would be helpful.

Henwood Energy Services. Good afternoon. My name is Bill Pezalla. I am a project manager with Henwood Energy Services. I know that we're pressed for time, so I will try to make the first couple of slides short. Henwood is a firm of about 200 consultants and other technical support people. We have offices all across the world in Australia, England, Atlanta, and our headquarters is here in Sacramento where about 150 of our employees are. We do a lot of work in the wholesale power markets, and you can see on our graphic here, different markets where we've analyzed all of the generation, transmission and other systems related to wholesale power supplies for areas all around the world. We do forecasts for wholesale energy prices for those areas. We do a lot of work in analyzing power markets and assessment of energy markets and their rules.

The initial tasks for Phase 1 of this project are to evaluate the risks, the benefits, and the feasibility of looking into becoming a utility. Electric utility operations have traditionally been vertically integrated. Start out with fuel procurement, generation, transmission, distribution and retail services. These can be looked at in a different way, such as power supply procurement and management and power supply issues of course are very big right now and management of those costs. Tied in with that is load forecasting and supply scheduling. Between these two are some of the major risk issues facing California. Additionally, elements of energy service require delivery facilities, revenue cycle services and settlements, customer services, and regulatory requirements.

Now the City's issues are basically tied in with managing the energy costs invariability and volatility of the wholesale markets. The reason that the City would be interested in looking at these would be for current residents and for future growth and development here in the City. Lowering energy costs to maintain services within budget for the City itself is certainly viable. Creating self-sustained operations is certainly something you would want to look at from an economic standpoint. There is also the issue of the City's interest in local control.

Now, once that we have looked at the different issues related to what the City's interests are, we'd be able to look at the strategy. There is no one size fits all approach for doing this. Every City that you could look at in California has some different model, different method that is chosen. Those who have started new utilities, like Merced Irrigation District, who we helped put into business a few years back started with one large customer and grew from there. This City would be looking at something completely different with loads already established. The strategy selection process would certainly involve selecting the City's key drivers. Trying to determine what the issues are for the City, trying to balance the economics, social and political factors that deal with all of the issues related to energy delivery and power procurement, and identifying the possible roles for the City. The City might want to do something different or not do all of the different parts of the value chain. Then being able to evaluate the different opportunities that are available.

We will now take a minute to look in depth at some of the key drivers in the political factors for the City. What would be the City's long-term and short-term objectives for this program? Is this something just to get the City through the crisis that we've been under in the electric utility industry for the past year? Or is this a long-term viable project? What are the expected benefits from that? Certainly, what are the City's risk tolerances? If the City decides to get involved in wholesale power markets, there is going to be some risk involved, same type of risk that faced PG&E and Enron and everyone else. What are the City's available resources for this? What things does the City have now and does the City control that can be used to leverage going in to the power market? What are the constituents' requirements and how much support does a move into the wholesale power market or electric utility have from the City constituents and the folks who live here? And the level of commitment.

As we look at these, we look at the possible City roles. The City could be a provider of specific parts of the value chain. It could be the commodity portion with fuel procurement and generation. It could be the delivery systems which PG&E is owning and operating right now. It could be in customer services. Of course, the City could look at facilitating actions by others such as in reduced risk through other types of plans such as figuring out how to help in right-of-way, planning, energy conservation, and load management. Depending on these drivers and strategies, the City could decide on certain sample investigations. A few of these could be

looked at through a study like this and would include strategic alliance opportunities with other entities, economic or green power, such as the study that we helped Oakland perform over a year ago. The legal and political threats in distributed generation could help enhance power supplies. I will go ahead and turn it over to my associate Adrian Chiosea, so he could speak about some of the projects we've done around the San Francisco and the California area.

Good afternoon, my name is Adrian Chiosea. I'm a project manager with Henwood Energy Services. I'm here to give you a quick tour of some representative projects we've performed for various entities that qualify us to do this project. I would start with Merced Irrigation District. Bill already alluded to this--we've been the consultants that helped put them into the electricity business. We are the consultant chosen to do strategic planning for the Merced Irrigation District and actually, we came up with a detailed plan that would help them get into the electricity business from the beginning.

Commissioner Schmeltzer asked when was that?

Mr. Chiosea stated that was in 1995. We basically helped them construct a plan to use as little resources as possible at the beginning in order to get into the electricity business based on the fact that they had some resources available, and they could provide a lot of benefits to their customers locally. So, we helped them negotiate contracts with local utilities such as PG&E and also with Turlock and Modesto Irrigation Districts on an operation and maintenance program that wouldn't oblige them to increase their infrastructure immediately and was a gradual process.

Turlock actually took over the operation and maintenance of the system on behalf of the Merced Irrigation District. So, they don't have to go into a hiring spree just to increase their personnel to serve all those new business needs. Also, we helped them write RFQs for power and helped them define interconnection agreements with the utilities that will help them interconnect with all the other parties in the region. Certainly, we support them with the regulatory and legal proceedings.

Commissioner Fellman asked under what authority was the Merced Irrigation District established? Was there an existing state law that allowed that area to become an irrigation district?

Mr. Chiosea stated I think it was AB 2638 that allowed them to get into the electricity business.

Commissioner Fellman asked how big is their service territory now? You said they started with one customer. How much have they grown in the last five years?

Mr. Chiosea stated I think they are serving about 70 megawatts of load and they are still increasing. We have still been in contact with them, and I know they started hiring the first people that would grow their department and load.

Our second project I would like to talk to you about is Presidio Trust. We're the consultant chosen by the Presidio Trust to perform strategic utility business planning. As part of our assignment with the Trust, we developed energy strategic plans for them. For example, performing complex financial analysis that will allow them to determine utility rates that they could charge tenants at the Presidio. It's like a micro-universe there at the Presidio. They look unto us to advise them based on their major strategic goals they have of being self-supporting and at the same time, being very competitive to provide those utilities.

Also, as part of that process of performing all of those analyses, we develop utility load forecasts for them that will project the kind of growth they should expect. In that regard, we work closely with their Planning Department to see what their strategic goals are and what kind of growth they should expect at the Presidio. We assist them with the commodity procurement process such as natural gas and looking at the alternatives they have other than PG&E, from whom they presently purchase power. Also, we have an assignment for utility easements at the Presidio grounds and on the Golden Gate Bridge.

Commissioner Schmeltzer asked is the Presidio Trust contract still underway or has it been completed?

Mr. Chiosea stated we are in the second year contract with Presidio Trust, and it is like a five year consulting assignment with annual renewal.

Commissioner Schmeltzer asked and the Presidio currently gets their power from PG&E?

Mr. Chiosea stated yes. Next assignment I would like to talk to you about is Hetch Hetchy Water and Power. We've done a lot of work for Hetch Hetchy Water and Power. The first assignment I would like to talk to you about is Treasure Island. Treasure Island was transferred, as you probably know from the Navy to the city of San Francisco. We've been the consultant to help them negotiate all the contracts for the transfer between the Navy and the City including Treasure Island and Yerba Buena.

Second assignment would be with Hetch Hetchy that was the Port of San Francisco, where Hetch Hetchy was looking into taking over the Port loads from PG&E. We helped them manage, construct, and configure the interconnection configurations such that they could serve all those Port loads. Hunter's Point is another assignment with Hetch Hetchy in which we again look at the present condition of Hunter's Point, all the environmental remedial actions that were needed there, and did a lot of utility studies for constructing an infrastructure backbone system so that Hunter's Point can be redeveloped. Also the San Francisco International Airport, where we assisted in Hetch Hetchy for coordinating construction of a substation together with PG&E and taking transmission power from lines coming into San Francisco and serving additional loads at the San Francisco Airport.

The last assignment I would like to talk to you about is Oakland Base Reuse Authority. We're the current consultant helping Oakland Base Reuse Authority (OBRA) manage the Oakland Army Base. We're the program utility manager for OBRA. We started early with OBRA by defining the strategic options they have in the transfer of the base from the Army to the City of Oakland. We perform a lot of financial analyses again for determining the kind of freight and the kind of measures they have to take in order to comply with their two major goals, being self-sustaining and at the same time being competitive with the local utility providers. Also, we helped them procure commodity from WAPA, from East Bay MUD, and certainly from PG&E for natural gas. Also, we helped them in negotiating a contract. They have a partnership with the Port of Oakland in which they operate a base jointly so that they will lay out a road map for the future evolution of the base as a joint corporation between two City agencies.

Commissioner Schmeltzer asked is this contract and the Hetch Hatchy contract both ongoing?

Mr. Chiosea stated no, we finished with Hetch Hatchy about two years ago while the OBRA is an active contract. We're the utilities program manager for Oakland Base Reuse Authority.

Commissioner Schmeltzer asked, are there any current contracts that you have that might provide a conflict with the work that you would be proposing to do here?

Mr. Chiosea stated no, I am not aware of any conflicts.

Commissioner Fellman asked do you have any contracts with PG&E?

Mr. Chiosea stated I think we were previously asked this question. We looked into it and no, we have no conflicts of that nature.

Commissioner Schmeltzer asked, it looks like from your proposal that the two of you would be directing or conducting the bulk of the work that you would be proposing to do. Is that correct and your availability over the next two months?

Mr. Chiosea stated one of us would probably be the project manager of the assignment. But we have so many resources that we could bring into this assignment, senior people that worked for PG&E and for public utilities.. We have a wealth of knowledge and management in our company.

Donald Maynor, Esquire asked, does your firm have any difficulty with the idea of doing this on a team basis where we might parcel out different assignments to different consultants?

Mr. Chiosea stated we haven't thought about that. It's the first time we heard this idea, but I would say we wouldn't have any conflicts. We would be willing to be part of a team.

Commissioner Schmeltzer stated thank you.

R. W. Beck. Good afternoon and thank you for this opportunity. I would like to introduce Ken Mellor who is a principal with R. W. Beck and would be co-project manager on this project. I'm Mike Bell and I'm the manager of our California operations and would also be co-project manager on this project. Ken and I have found in projects similar to this, a good approach has been to have the two most senior people with experience in this area in the firm. Our availability to quickly respond to questions or issues that may arise is enhanced by having both of us involved in the process. We'll trade off here and try and work through this together.

Briefly, the history of our firm. We've been in business for sixty years, have 500 employees spread across the country and are recognized as experts particularly in the municipal electric utility arena. This next chart shows representation of capabilities that the firm has. You'll see that it ranges from generation, transmission, distribution, distributed generation, renewable resources and on. We have a very wide breadth. Our firm was built within the electric power business and that is our core business.

I would like to spend a few moments on this particular slide. In the interest of time, I will try to be fast. What we would envision as Phase I would include public hearing support in terms of your ongoing public process. Very importantly, the risk benefit analysis, and I'll speak to this in a little greater detail later. Our quantitative skills we believe are excellent and proven. I will give you some examples of that as we move forward. Most importantly, strategic options development. This process could lead in many different directions ultimately. We feel that our expertise in terms of structuring a solution that meets your needs and will be most responsive to the community's desires is a strong point of ours.

With regard to the economic analysis and the quantification of alternatives, what I'm offering you here is an example of what we did for the East Bay Municipal Utility District. In that case, we looked at a wide range of options. As was pointed out earlier, there are many issues that are still up in the air and haven't been decided. You cannot accurately quantify where an organization may be a year from now or five years or ten years from now given the uncertainty that is out there. What we tried to do with East Bay MUD was identify the key variables and then work through a range of options so we could at least place some dollars on where those options occurred as well as a range of possibilities as to how likely it is that you are going to see a tremendous upside or a downside. What this graph represents is basically a number of different financial runs that we constructed based upon the possible acquisition cost of the facilities in the East Bay area, a possible range of options for non by-passable charges that are being considered by the state and also a range in

terms of power supply acquisition costs. As you can see in that case across the full breadth of possibilities, it looks like there are more opportunities to save money than to lose money. But their numbers are also quite large on each extreme.

Mr. Mellor stated I would also note on this that this is only one of the options that we looked at. We looked at other options of forms of municipal service provision including assisting through a direct access process, looking at facilitating renewable resources. This was just one option, but we've looked at a whole series of options.

Mr. Bell stated Phase II, which I believe Mr. Maynor described as a more detailed analysis we would envision would be started only if the LAFCo finds that it is worth pursuing any option further. That particular phase would be very much customized towards the City's needs. I will describe the individuals that we have available should you get to that point, but that's quite premature at this point in time. I am going to skip through a couple of slides here in the interest of your time.

Key personnel—both Ken and I would be devoted to the co-project management of this particular project. We have identified several areas that we see as being key in terms of personnel that we would devote towards this. One would be quality control. We would propose having a national director involved who has also been involved in large scale municipalization efforts across the United States. Another issue would be severance and transmission. We have individuals there that focus on transmission load flows and studies as well as costs of acquisition. Valuation, particularly if it were to go to Phase II would be very important. We have one of the few certified utility system appraisers in the United States on staff. Municipal operations in terms of how you would structure an organization, what would it look like, what type of expertise would you need to have run that organization? We have people available to evaluate that. Power market, which is extremely important because it is such a large component of the cost of power is an area where we have excellent expertise. Finally, financial and economic analysis. I believe, in the last slide, we offered an example of the types of expertise we have there.

I would like to speak for a few minutes about our related experience and actually at this point, why don't I ask Ken to go through this slide and give you some examples of other work we have performed.

Mr. Mellor stated we have also mentioned a couple of times the East Bay Municipal Utilities District study. That is still underway. We have reached a stage now that is more the public outreach stage. As I mentioned, we looked at several scenarios, different business plans where the City could take advantage of its resources. They have hydro generation just as the City of San Francisco does. They also have some co-generation at their waste water treatment plant. So we looked at options. How could they optimize their energy use so that they got into operations analysis, and then how could they best apply the resources that they own to those operations and get the best final bang for their utility dollar?

The Port of Oakland is another ongoing project. In that case we have looked at their operations, their energy purchases, what they should do as far as future expansion. That covers the Airport, the Port, and what they call their commercial real estate area which includes Jack London Square. That project is just about at completion. In fact, we submitted the final report yesterday that will be distributed today, and then we will go again to the public process part of it.

The third is the city of Fremont. The city of Fremont is not in the public power business. They wanted to know what energy policy they should have. They were particularly concerned about rolling blackouts. They were concerned about how they could advance the ideas of conservation and demand site management in the city of Fremont. What could they do with their very large industrial customers to make sure that they were not out during rolling blackouts. We came up with proposals. We worked with a public task force including their large industrial customers to come up with an energy policy for the city of Fremont.

Lastly shown there is the city of Long Beach. Long Beach had the opportunity through a termination of their franchise to acquire the electric distribution system from the Southern California Edison Company. We did the analysis as to what the economics of that would be and then worked through the process and finally ended up assisting the city of Long Beach and negotiating future arrangements with Southern California Edison.

Just other municipalization projects we have worked on recently in California--city of Fresno, Delano, West Hollywood, Chino, Culver City, Alturas, Pasadena, Redding. We've done work for all of those on these issues in the recent past. City of Los Altos Hills, I think that is still ongoing.

Commissioner Schmeltzer asked when you say these issues, some of these are cities with municipal districts and some of them are not?

Mr. Mellor stated actually, the only two cities that are currently in the municipal business are Pasadena and Redding. Pasadena, they were looking at contracting their customer service aspects and actually a portion of their distribution system activities. We looked at contracting out as an opportunity to save money for the city of Pasadena. We also worked on some of those issues in the city of Redding.

Commissioner Schmeltzer asked for the other cities that don't have districts, what types of issues were you working on?

Mr. Mellor stated in the City of Fresno, I started out as a prospect of looking at utility operations. It ended up with a project that is still underway looking at co-generation, working with the city, state, federal government and county and a very large public hospital combining a co-generation facility to provide steam and electricity to those areas out of the co-generation project. In Delano, they were looking at spot municipalization which is as a new area develops like a residential subdivision or a

large industrial tract. That part being taken over by the City and operated as a City municipality acquiring power supply and just owning those little spots around the City as they develop. In West Hollywood, it was a municipalization study. We worked with the City Council and very quickly learned the City Council wasn't very interested in doing it. It stopped right there. In the city of Chino we've been working again on new generation power development and spot municipalization studies. Culver City was a full municipalization study effort. That did not proceed and we've already talked about Pasadena and Redding. Mike, you might want to talk about Los Altos Hills. You are the general manager of that project.

Mr. Bell stated that's something of a unique project. The city of Los Altos Hills was interested in improving their system via under-grounding. They were not successful in getting either PG&E or Pac Bell to underground much of that system since it is largely residential and not very large. They have embarked upon a path to construct an underground system that would serve both the electrical needs and the telecommunication needs within the City. This is not a comprehensive list. These are just examples.

Commissioner Schmeltzer stated we don't need to go through it in detail.

Mr. Mellor stated I might mention Los Angeles Department of Water and Power, which is also currently a publicly owned utility. They were very interested in looking at different management and organizational structures. What we did with them is worked on different kinds of municipal ownership and governance to see whether there was a better way than they currently had.

Mr. Bell stated we believe that we are quite familiar with the issues here in the Bay Area with loads and resources. We are familiar with Hetch Hetchy and that project as well as the contracts associated there. We've looked at the PUC plan that was delivered to you a few weeks ago by Ed Smeloff and are familiar with that particular plan. We followed quite closely the 2001 ballot measure and that process. By virtue of the work that we have performed here in the Bay Area, we are also quite familiar with options that are available and with the system itself here in the Bay, most notably the transmission constraints and the potential for market power abuses via generation here in the Peninsula.

What I would like to close with is why we feel we are the best firm to perform this particular work. We feel we have got the best qualifications and experience, particularly locally. We know what to expect and have done successful work here. Our analytic capabilities again we believe are excellent and will suit you well particularly in terms of quantifying risk and reward and making decisions as to where's an appropriate place to go and not to go. Again, familiarity with the Bay Area dynamics. Most important are our reputation for objective independent analysis. Oftentimes, particularly with regard to municipalization, we are advising clients of where they run the most risk and what they ought not to do as opposed to what they ought to do. So oftentimes, we will play a devil's advocate and most

clearly point out what can be done and what can't be done objectively. You have got the corporate commitment of this firm. We've done a lot of that work. As I say, I run the practice here in California so we will make certain that you get whatever resources you need to accomplish your objective. With that, we are ready to start work.

To address some of the earlier questions particularly with regard to working with other firms. We do believe that we have all the skills to do this work ourselves. However, should the LAFCo desire to have other participants in the project, we would have no objection to that. We know everybody that you have assembled here in the room quite well, and I can honestly say that you got a good group of respondents. That would not present a problem with us. We would also commit to having a draft back to you in June and meet whatever time deadlines that you might have.

Vice-Chair McGoldrick asked would you anticipate needing much staff time from our City and County employees here, our LAFCo staff, that begins and ends with our Executive Director, Ms. Young?

Mr. Bell stated some time would be necessary. That would depend upon the ultimate scope. We also find oftentimes assistance with data collection. When we're looking for information, it helps to have staff members that are available to perform that function. Also, with regard to the legal side of the questions, if Mr. Maynor or other attorneys would be available that would be helpful.

Vice-Chair McGoldrick stated I didn't mean to exclude Mr. Maynor or Ms. Miller. I think of them as not City employees yet, but rather as staff that are helping with special expertise.

Mr. Mellor stated we find it valuable at the outset of a project like this to meet with the policy makers, interview those policy makers, find out what their objectives are so that we are working in concert with those objectives. We typically have what we call a straw-man process which allows us to see where there is consensus among those we have interviewed, where there is disagreement, and to be able to put back to the policymakers what the range of views are. That often helps us get a very good start in the direction of the project.

Vice-Chair McGoldrick asked have you had any work that you have done that your clients have not been necessarily satisfied with what you have produced?

Mr. Mellor stated we find our clients are usually very satisfied. I can't think of one that is not.

Mr. Bell stated we also do a lot of repeat work. We look to develop long-term relationships and deliver on our projects.

Vice-Chair McGoldrick asked would you say that there is any weakness that your company has?

Mr. Bell stated I don't believe so in this particular area. We've done a lot of this work in many different jurisdictions particularly here in California, and we believe we are well suited to do this work.

Vice-Chair McGoldrick asked in the area of energy efficiency and conservation, do you have a sort of thumbnail sketch or description of where you've been with that?

Mr. Bell stated we've got resources in Sacramento that have been involved in green power projects all across the state. We've got the expertise in renewable resources in that particular field.

Mr. Mellor stated I would also add another California project recently completed was for the Imperial Irrigation District, where we put out proposals for all of their conservation demand site management research and development and renewable resource programs and then evaluated those and helped them award the bids. We are very familiar with that side of the business.

Commissioner Schmeltzer asked do you have any current contracts that would potentially pose a conflict with the work proposed here?

Mr. Mellor stated the only contract that I would mention is that we are currently working for the Public Utilities Commission on the independent evaluation of their CIP.

Mr. Bell stated that shouldn't present a conflict. We are presently engaged with the Public Utilities Commission.

Commissioner Schmeltzer stated thank you for that information.

EES Consulting. Good afternoon. My name is Alex Miller. I am managing director with EES Consulting, and this is Gail Tabone, Vice President with EES Consulting.

Gail Tabone stated a lot has been said by all the other different consultants today so I think we will try and keep things short. We don't want to repeat what everybody else has said. I would start off by telling us a little bit about our firm. We are a firm of about forty professionals primarily focused on engineering and economics. We're not a 200 or 300 person firm unlike some of the other ones. We are very specialized, very much a boutique consulting firm. We have about seven principals in the company. Two of us are here who are managing the work, managing the offices on a day to day basis and would be heavily involved in this project. We would probably bring in at least one other principal to work on this. We also have expertise in accounting and finance. We do some operational planning, expert testimony, regulatory work, all those things. One of our key focuses, especially in

the last two years, has been municipalization and looking at different options for cities that are not already utilities.

As a small firm, we primarily work for public utilities. We mostly work for electric utilities, but we also work for water and natural gas utilities. We work for a lot of the cities and municipal agencies in California, as well as the rest of the west coast and from time to time other parts of the country. We generally do not work for the investor-owned utilities. We do not work for PG&E, Southern California Edison, STG&E, people like that. That's just not our area. Some of our recent experience is very relevant to this because we are looking at the same issues for several different clients right now, and they are listed here. Coachilla Valley Association of Governments or CVAG is a group of cities in the Coachilla Valley, Palm Springs and some of those people who are looking at their options right now. They are served by Southern Cal Edison. We are just completing Phase II of that project and are at this point on hold waiting further instructions if they are going ahead or not. In their case, we have looked at a lot of different options from them, different organizational structures that would work, whether they should do aggregation, whether they want to do condemnation, what all of their different alternatives are, just as you are.

Two smaller cities in Southern California, city of San Marcos and Cerritos we have been working with separately and together. Both of them had committed to buy into generation resource at this point, and we helped them with that analysis and evaluation. The city of San Marcos is also looking at some creative ideas for forming a new municipal utility apart from condemnation. Norcal Electric Authority is in the three northern counties in California, and they have formed a joint powers authority to purchase Pacificor's service territory within California. This is a consensual sale, but we have been the key consultant on that and have done all the work from the beginning, looking at the feasibility, and all the way through submitting it to the CPUC for approval, which is about to happen in the next month or so.

Finally, Truckee Meadows Water Authority is another recent client that we have had. They again, the city of Reno, Sparks and Washoe County formed a JPA to buy out Sierra Pacific's water utility in the state of Nevada. We helped them all the way through the process working with another large consulting firm. Again, that was a joint effort as was Norcal Electric Authority. We worked with a team of lawyers, financial advisors, public relations people. So, when these things happen, it generally is a team effort and we've been involved as both a lead consultant and also as a smaller contributor to the process. Alex will talk a little bit about the scope that we had planned for this type of project.

Mr. Miller stated as was shown earlier and as was shown in your RFP, the risks, benefits and feasibility of municipalization are the overall scope of Phase I. You know the current issues and we've gone through these high rates and started with the nuclear plants, continued with the qualifying facilities, went on with the stranded cost recovery and then moved on to the DWR contracts, which we would have to

deal with several years going forward. Reliability, obviously one of the biggest issues here. How to improve that is one of the reasons that this is ongoing.

A couple of other things that are really not really right in the scope of that needs to be looked at. One is AB 2266 which is known in the municipal community as the PG&E anti-municipalization bill. I do not know what's happened in the last few days, but that was originally focused on Municipal Utility Districts and preventing in essence their formation. Moving into electricity services is something that would need to be watched as it could be easily expanded to include other forms of municipalization. There is a current plan coming out of the Mayor's Office, which I'm sure you are well aware of. In terms of the risks, benefits and feasibility. I'm not going through an exhausted list, but here are a couple of thoughts.

This is a challenging process. If it gets down to municipalization, I think you were told early on that would be the fight of your lives. It's also risky in the sense that in municipalization, just compensation for the assets can be determined either by a court or by the California Public Utilities Commission. At any time something is left up to the court, there is some risk of what the outcome might be no matter how much homework you've done. Another risk and we've seen this in other areas as well is the thought that government is taking over a private sector duty and responsibility and that is not in a sense really the point. The point is that there is very professional management. Many of us have done a much better job through the electricity crisis on a municipal electric side than on an investor-owned utility side. One thought to consider here is that having somebody on board that is in fact experienced at that as sort of an interim general manager, we found has helped making its way through these processes.

On the benefits. One of the major benefits is that municipal utilities have a cost advantage right from the start. A cost advantage is able to finance with 100% debt no higher cost equity and not paying taxes. So municipal utilities begin with a cost advantage over investor-owned utilities. Another benefit is and it's been talked a lot about is local control. I will give you one more aspect to that. There is a public purpose charge that's charged to all customers and right now that is collected by the load serving entities, PG&E here. That is then split up amongst the state and how it is used is determined by the California Public Utilities Commissions. If you municipalize here in the City, those funds would come to you or direct application in the municipal utility service territory.

Feasibility, in addition to looking at the economics and the potential options and ways to go forward. If it becomes a municipalization fight, support and staying power is extremely important. Getting support of the local community, a very close vote last time. Having a positive vote would help. But other ways to make sure that there is a willingness to stay in the fight would be vitally important in getting something done. And then, keeping an eye on the legislation. AB 2266 popped up just recently. Now there's a community aggregation bill working its way through the legislation that has a chance to turn back in imminent domain proceedings the

rebuttable presumption of higher value use. There's lots of legislation also that needs to be watched and that could harm any of your ability to get something done here.

Lastly, we would need to sit down obviously, and everybody has said that, to develop a work plan. We don't work without having a very detailed understanding of what we would want to get accomplished in some sort of detailed scoping document. We have in the past worked with other firms and if there are going to be other firms, it becomes even more important to figure out specifically and exactly what we all want to do. We generally work very closely because these types of things generally iterate through time.

Ms. Tabone stated let me just wrap up with a few key points. This is one of our key areas of work that we are doing. This isn't just a small portion of our work. This is one of our primary focuses of our company right now. So, we're very much looking at these issues for various people on a day to day basis. We would have principals of the company involved. This wouldn't be delegated to analysts. It wouldn't be delegated to mid-level engineers. This would be the principals of the company working on this on a day to day basis giving direction to the more analytical staff. We can do a lot of the different pieces. Again, we are much smaller than some of the firms you have talked to. I think our key benefits would be looking at strategies and alternatives, doing some pre-feasibility, looking at the rough numbers. Let's not start off looking at a detailed study of every single item and what it may cost. Let's look at big picture items. Let's narrow it down to a couple of things and take on the next step. That's consistent with what we do for all of our clients.

We don't have any conflicts of interests. We don't work for the investor-owned utilities here. We do work for other municipal agencies whether they are existing utilities or cities that are looking at becoming utilities. But again, none of them would create a conflict. In fact there are a lot of synergies with that because we are looking at the same issues for multiple people. Because we're in the Pacific Northwest, we have much lower rates than those firms in California. We travel down here a lot. We spend a lot of time here, but, we don't pay salaries here and we don't own homes here. So, we can do things for a little bit less cost on a per-hour basis.

Vice-Chair McGoldrick asked have you been involved with any utility condemnation cases?

Ms. Tabone stated we have been. We have been looking at some that are starting. We've bee involved in some where there have been more annexations as opposed to a complete condemnation. As you may know, there haven't been many of those in this country in the past ten to twenty years. We have been involved in some smaller ones and Gary Saleva, our president, has given expert testimony in condemnation for some cases in Oregon.

Vice-Chair McGoldrick asked as regards to fees. You would be coming down from the Pacific Northwest, how do you handle your travel time?

Ms. Tabone stated if we are working during our travel time, which we usually are, because we all spend a lot of time on airplanes we try to do as much work as we can. Of course, that is billable if we are doing work. If we are not doing work, going to and from the airport, the down time, we don't bill for that.

Vice-Chair McGoldrick asked would you be anticipating needing to request much support from our staff?

Ms. Tabone stated I think the other answer is very similar to what we would say. We would really need to understand what it is you are trying to achieve and the policy direction that you want before we would proceed. But on a data-wide basis, we think there are a lot of sources for data and probably would do most of that leg work ourselves.

Vice-Chair McGoldrick asked are you familiar with the PG&E bankruptcy situation?

Ms. Tabone stated we are not representing anybody in that case. Of course being in the utility industry, we are following it pretty closely.

Vice-Chair McGoldrick asked what your familiarity might be with the California Public Utilities Commission regarding their power purchases?

Ms. Tabone stated we have had to look at that same issue for CVAG, San Marcos, and Cerritos so we are familiar with it, but again we're not representing anybody in that case right now.

Chair Gonzalez asked could you tell me where your main office is located again?

Mr. Miller stated this would work out of my office in Portland.

Commissioner Fellman stated have you done any work for the City and County before or the San Francisco PUC with the Hetch Hetchy system?

Ms. Tabone stated no, we have not.

Chair Gonzalez asked and the Norcal Electric Authority is located where?

Ms. Tabone stated that is Siskiyou County, Del Norte County and Modoc County, the three northernmost counties in California.

Chair Gonzalez asked how long has EES been in existence, how many years?

Ms. Tabone stated twenty-three years. We have grown during that time. We started off as a small firm just in the Pacific Northwest, and we really expanded and work all up and down the West Coast on a routine basis now.

Commissioner Hall asked how long has each one of you been with EES?

Ms. Tabone stated I have been with the firm for fourteen years and one of the partners at this point.

Mr. Miller stated and I have been here less than a year, but I have been in the electric utility industry for more than twenty.

Ms. Tabone stated something to point out on Alex's experience is that he's been on the other side of the fence from some of these.

Mr. Miller stated I have worked for many years at Southern California Edison as Vice-President and Treasurer of the utility there, and I have worked for Pacific Corp in the Pacific Northwest doing a lot of property sales.

Chair Gonzalez asked if the Commissioners or Mr. Maynor had anything to add.

Mr. Maynor stated that he did not have any questions for the consultants.

Chair Gonzalez asked Mr. Maynor, what's your opinion of how we should proceed? My thinking is that we should allow the various Commissioners time to review any information related to the selection, and perhaps make that decision at our next meeting. I know that I personally would like to consult with my own staff related to their opinions of this.

Mr. Maynor stated if it's appropriate, I don't mind commenting on some thoughts of Gloria Young and Nancy Miller when we did the interviews. Is that alright with the Chair at this time?

Chair Gonzalez stated that would be fine.

Mr. Maynor stated we were impressed with strengths in particular areas. Mr. Flynn's firm obviously had the most intimate knowledge of San Francisco and was very strong on transmission. The Henwood firm didn't talk much about this, but they have impressive market simulation computer programs that might be useful in doing risk analysis. They also have a lot of experience in not just the municipal market, but the larger market. That was impressive. R. W. Beck, as you could tell has the ability to do the whole package if that was something that the group wanted, and they've been doing some work with similar studies. There's information there that would be readily available. EES also has experience doing similar studies. They are a smaller version of R. W. Beck and you get a bit of a Northwest flavor, and sometimes that could be helpful.

If I were picking a basketball team, I would want some of those folks on my team. I think I would like Flynn on my team on the transmission issues, and I would like to be able to use the Henwood analytical tools. I'm not sure I need both R. W. Beck and EES because I think there might be overlap. They both seem to have the general background to do much of it. I was just thinking about what your next steps might be. A couple of approaches. One might be to authorize the Executive Director to enter into contracts with three of the four, sit down and have a scoping study and get some cost estimates based upon what we worked out as a group as to what the project should like, who would do what, and what the estimated costs would be. Or, we could invite all four groups, if they would be willing to do that, sit down and have that same scoping study, hopefully very soon, and come back again with cost estimates to the extent that there was overlaps in areas where my firm can do that, and we get a sense what the costs might be. I like the idea of bringing in additional consultants in for several reasons. One, I think you broaden the scope of the different viewpoints. You have some peer review opportunities as well. Sometimes these kinds of studies can become political. You take away the ability to target the consultant as a problem because you have a little bit of a broader range.

Commissioner Schmeltzer stated my concern with having three or four consultants given our budget constraints, would be that we could use all of that time figuring out who's doing what rather than getting a study done. I think the opportunity for overlap and to lose time on that sort of sorting when you have that many different people involved would be very high.

Mr. Maynor stated that may be the case after you had your scoping meeting and you couldn't reach conclusions on it. On the other hand, we've learned a lot through the public hearing process in the last several months. But, these folks are in the business on a day to day basis. We're at a certain level of information. They are on a much more technical level. It would be useful to hear their thoughts on not only the process, but on some of these issues. When you'll get them in the room, you'll hear some different viewpoints, which I think is very helpful. I am optimistic that we can parcel it out in one session and get a clear idea where the study should go. If it can't happen, then you may be correct, that's a problem. I wouldn't anticipate spending days and many hours trying to figure out who is doing what and having overlap issues.

Chair Gonzalez stated I think that my own sense of this is that the ideal situation would be to have Mr. Maynor make a recommendation to us. I would also like our Executive Officer to make a recommendation to us. Between now and that next meeting, I think I would invite the members, if they have specific areas of inquiry that they want to flush out, to contact Mr. Maynor, and let him know what it is that they might be concerned about, and let's flush that out. I'm a little bit hesitant to get terribly far along in trying to make a selection today, or to make that decision as to whether or not the scoping study should be bringing in more than one consultant. My instinct has always been that that would be the preferable way of going about it,

but I also see the advantages of doing it differently. As you said at the outset, I think we have a number of consultants that are all very talented and can do quite a bit of work related to the kind of information that we want.

Commissioner Schmeltzer stated I think some of the San Francisco specific knowledge that some of the consultants have would be very valuable. I also think that there is a lot of valuable information or valuable experience in the room, and I could see the benefit of having more than one consultant. I would be concerned about having more than two. I think we would start to get into scoping problems in a process that we would need to move rather quickly along that we could very easily end up bogged down.

Chair Gonzalez stated I am proposing that we make a decision at a meeting sometime in the future, and we can decide when that meeting will be held. This idea of Flynn and Associates appears to have some knowledge of San Francisco that might make somebody favor them. That may be true. I certainly didn't hear anything in the presentation that so impressed me about that, that I would make a decision based on that. If that really rises to a level that it gives them an advantage over others, then I want to see more about what they have done for the City and County before I am willing to cast my vote in that particular way. That's not obviously something we have here today.

Commissioner Fell man stated I am concerned about our timing because we want to get a report done. We talked about a final product being delivered in June. We're already at April 19 today. Everyone was kind enough to come today and give us their oral presentations. We have their documents. What I would like to do is have us establish a process for reaching a decision plus indicating a date as to when that decision would be reached. I can appreciate that we've heard the presentations, and you might want people to look at it further. I like the idea of having a recommendation from Mr. Maynor and Ms. Young, but I think we should get a recommendation for one approach if it's two consultants or one consultant, but use the next couple of weeks to process that internally. I think we have a meeting scheduled, is it May 10th? I think we should develop a process today even if we can't reach a decision.

Chair Gonzalez stated I agree with you. I think my remarks about asking Mr. Maynor and Ms. Young to prepare their individual recommendations and what the scoping study in Mr. Maynor's opinion would look like could be done between now and that next day. We can pick a new date today if we want to. There's no problem with that. That just speaks to our availability. We can try to do this in the next ten days.

Mr. Maynor stated the other advantage might be to actually contact the consultants, share with them the Executive Summary, and get some feedback from them on what they feel they would be qualified doing and perhaps costing some of this out in the general sense. That might assist us in maybe reaching a conclusion that you don't need three or two or one or what that might be. This is kind of an iterative process

where we didn't know exactly what the study was going to look like. When we met with these consultants, we couldn't tell them exactly what the study was going to look like. So we got more information this afternoon. The next step that would be helpful would be to get a sense of what kind of unique information these people have. Maybe on further investigation, it may not be as unique as we thought. Or it may be something that is essential in making the study valuable. That might give us an opportunity to get more feedback than we already have.

Chair Gonzalez stated I want to hear from Commissioner McGoldrick and Commissioner Hall.

Vice-Chair McGoldrick stated I was just concerned about the timeline. I misspoke and said April 29th. That's actually a completion of contract negotiations target date that we had in our schedule of events, but we were not fixed on that necessarily. I was looking at the projected draft report due date as June 30 and trying to see if we can maybe speed things up a little bit. I think if we want to give whoever does this work the time, if we weren't to meet again until May 10th and enter into negotiations and spend a week or ten days on that, the next thing you know it's the end of May. I don't think we can feasibly expect a quality product. I think one of our possible outcomes for today's meeting was that we would in fact make our final selection today. I don't know whether or not Commissioners want to go back and reconsider that or consider meeting in another week, next Friday afternoon, or something like that. I can imagine we can be prepared by Friday.

Commissioner Schmeltzer asked do we have enough time to notice another meeting for next Friday? I don't think that we do.

Monica Fish, Commission Clerk stated that it would have to be noticed by Tuesday.

Vice-Chair McGoldrick stated it would have to be noticed 72 hours before the meeting.

Mr. Maynor stated the other factor that Ms. Young asked me to share with you is that she is not obviously able to begin negotiations until you reward the contract. Then she has to get a budget approval. So your point is well taken. I wouldn't go beyond next week.

Commissioner Hall asked could I ask you to repeat the process that you did a few minutes ago because that's an interesting approach?

Mr. Maynor stated the idea would be to informally meet with the consultants, get a sense of what the study would look like, and hear some of their input as well. To see what extent they are interested in doing parts of the project, all of the project or whatever, and ask that they come back with some preliminary budget estimates given our time constraints. Then we would be in a position to come back to you with a little more information on how you might want to go.

Commissioner Hall stated he liked that approach.

Mr. Maynor stated that assumes we would have the cooperation of the consultants.

Commissioner Hall stated that what Mr. Maynor just mentioned is narrowing the scope down and meeting with the consultants in coming back to us with their input and some kind of cost estimates, if I am correct on that?

Mr. Maynor stated that the other option would be to as soon as possible next week to informally discuss with the consultants what we sense the nature of the study is going to look like and have them tell us what parts they would feel comfortable doing and get a sense of their input on what they think a study should look like. Also, give us some general cost estimates prior to Friday assuming you want to meet next Friday.

Commissioner Hall stated I like the approach, but first of all I am not interested in having three. Two would be a push. I would like to have one do the whole thing if possible. That may be the better way to go is two, but have them look at it in its entirety and then tell us if they can't do it as they did today and what parts. I'm sure there are parts of this study that each one is more interested in than the other. I would like to have one do the whole thing, back up to two, but definitely not three.

Mr. Maynor stated part of the reason I want to talk to them is to find out how much is currently available. The advantage to perhaps having more than one or two or three is that one of them may have a lot of information on a particular issue that is sitting there, and you don't have to ask somebody to reinvent that wheel. I don't know to what extent that exists. That's why I would like to have an opportunity to find out. It may well be that you would be better off with one, or you might be better off with three.

Commissioner Hall stated that's fine. I like that approach.

Mr. Maynor stated the other possibility that was mentioned was the possibility of continuing this meeting until next Friday and then that might eliminate the notice process.

Ms. Fish, Commission Clerk stated the meeting can be recessed to a specific date and time.

Chair Gonzalez asked what is the problem with concluding the meeting and preparing a separate agenda for a different meeting?

Ms. Fish, Commission Clerk stated there would be no problem. We would just have to re-post and notice the meeting.

Chair Gonzalez stated when we have Committees at the Board of Supervisors, we could just as easily recess every meeting at the end and then continue it to some other date. The bigger question is whether or not we are available for next Friday.

Commissioners Schmeltzer and Fellman stated they were not available.

Vice-Chair McGoldrick stated if we were to discuss the possibility of making a decision today, it may help facilitate where we are going. We may have sufficient information today to be able to make a decision and move forward. I don't know if any other Commissioners would like to express their feelings on that.

Chair Gonzalez asked Vice-Chair McGoldrick if he were available next Friday.

Vice-Chair McGoldrick stated that he would have to run down to his office and check his schedule.

Chair Gonzalez stated why don't we recess the meeting for five minutes to find out who is available next Friday.

The meeting recessed at 4:15 p.m.

Chair Gonzalez called the meeting to order at 4:27 p.m.

Chair Gonzalez asked, Mr. Maynor, how much time would you need to be able to consult with the various consultants related to the scoping issue, and how much time would you need to feel comfortable making recommendations and presenting us different options about who we could select and what the configurations might look like?

Mr. Maynor stated I don't think it is so much of a problem with me. I can get in contact with the consultants and have a mini scoping session with them. Then it is really a function for them to get back and let me know what areas they feel they are capable of doing, can get done in the time period, and some approximate costs, recognizing this is a very general sense. I can have those conversations early next week. Then it's just a question of how soon they could back to me and then we would put together a presentation with a little bit more information for you.

Commissioner Schmeltzer asked then you would envision talking to them and having them get back to you after a period of time?

Mr. Maynor stated what I would do is give them the Executive Summary and maybe a matrix of issues, ask them some specific questions about what they feel is in their capabilities of doing in that timeframe, then to get back with some general time and cost estimates of what that would entail. This is not going to be the kind of scoping issue that would later take place after you negotiated with the contract, and I would mention that to the consultants. It is not a contract negotiation as much as it is to get

a better sense of what the project entails, what their capabilities are, and what their sense of what the costs would be, in ballpark areas.

Commissioner Schmeltzer asked you would envision contacting them on Monday or sooner than that?

Mr. Maynor stated I would begin the process on Monday to the extent they are available. I would not know how long it would take them to get back to me with the information, their estimates, but I would begin the process on Monday.

Commissioner Schmeltzer asked, could we get an idea from the consultants about their availability early next week to respond quickly to a request like that? Could we go in the order that you presented in, and what you think your turnaround might be on that?

Mr. Boccignone, Flynn and Associates asked how long is the Executive Summary you want us to review?

Mr. Maynor stated it is not very long. It is more to give you a sense of what the direction and scope are, that it's not going to be the kind of feasibility studies that some may envision.

Commissioner Schmeltzer stated it is about three pages.

Mr. Boccignone stated I think we could review that and respond in a day or two.

Commissioner Schmeltzer asked, Mr. Maynor, it's about three to five pages?

Mr. Maynor stated it is three pages.

Mr. Boccignone stated I think if we could have a conversation early next week, we could get back within a day or two after that.

Mr. Pezzala, Henwood stated we are prepared to limit our scope to just wholesale power markets and prices for that. We would be available immediately to give you that information because we run that all of the time. So, we would be able to respond to the questions within a day.

Mr. Bell, R. W. Beck stated if the information is available on Monday, we could take a look at it and get back to you within a day or so with estimates and an understanding. That should not present a problem.

Mr. Miller, EES Consulting stated we could get back within twenty-four hours and if Don could e-mail the information over the weekend, we could get started quickly.

Mr. Maynor stated I will do that. I will make sure before you leave that I have your e-mail addresses, so I can do that this evening actually.

Chair Gonzalez stated colleagues, there is some issue about whether or not we could meet on Friday and Commissioners Hall, Schmeltzer and Fellman were not available for that. Do you want to suggest another date?

Commissioner Ammiano suggested Wednesday morning, April 24, at 8:30 a.m. It seems to be a time that everyone is available.

Commissioner Hall asked would the procedure you explained to me just before we took a break, is that now being short-circuited by having us meet here Wednesday? It sounded to me like you needed a week or two. Now it sounds like you can get it done in a couple of days. Are we sacrificing something here? I am not prepared to move that quick on this. I like what you said before we went on break. If that took a week or two, I am not bothered by it.

Mr. Maynor stated let's see where the conversations go at the beginning of the week with the consultants. If it seems to me that more time would be needed, then I would get back to you.

Commissioner Hall stated if you feel comfortable that you are giving us the information that I need to make a decision by Wednesday, fine. If not, then I am going to vote to take more time.

Mr. Maynor concurred.

Commissioner Fellman asked, Mr. Maynor is part of your process going to be a recommendation from you and the Executive Director regarding a preferred approach or selection process with preferred candidates?

Mr. Maynor stated yes, if you would like that. The other option is to come back with the information that I have received.

Commissioner Hall stated I think we would be looking for some guidance there.

Chair Gonzalez asked, Ms. Fish, for a Wednesday meeting there wouldn't be enough time to publicly notice it, would there?

Ms. Fish, Commission Clerk stated 72 hours would be enough time.

Chair Gonzalez asked is there any possibility we can meet the following day?

Vice-Chair McGoldrick stated just to be clear we won't be recessing at the end of this item, we just won't take no action on this item. We do have some other agenda items to deal with today.

Chair Gonzalez asked for another possible date.

A discussion was held about the various meeting dates to select from.

Chair Gonzalez stated I appreciate Wednesday is a good date, but I think we should try to select another possibility in the event Mr. Maynor needs more time. The other option would be a week from Monday in the event we couldn't be prepared for Wednesday.

Commissioner Schmeltzer asked does that mean we have a Wednesday as long as Mr. Maynor can prepare. If not, we move it back to Monday?

Commissioner Ammiano stated that is what the suggestion is.

Commissioner Fellman stated I would just request that we know Tuesday by noon whether or not we're going to meet on Wednesday or Monday.

Chair Gonzalez stated Mr. Maynor, in the event that we can't make Wednesday, a quorum of the LAFCO will meet and simply adjourn the meeting and reschedule the meeting for the following Monday if that is going to be the time. We are going to go on to other business. To the consultants that came today, I want to thank you all for coming forward and for your patience. I think a little bit more of a deliberative process is a good thing on this item. I hope you are patient with us. I'm sure Mr. Maynor will let you know whether or not we will be hearing the item on Wednesday. If not, it will be a week from Monday.

Commissioner Fellman asked if we should take public comment on this item.

Chair Gonzalez stated there would be an opportunity for public comment later on because we haven't taken any action on the item.

This item was recessed until Wednesday, April 24, 2002 at 8:30 a.m.

4. Discussion and Authorization to the Executive Officer to request release of reserves in the amount negotiated for the contract to provide energy consultant(s) services.

Chair Gonzalez asked Mr. Maynor, is Ms. Young with us? With Item No. 4, is that something we should just likewise continue to the meeting when we make a decision as to Item No. 3?

Mr. Maynor stated I don't know much about Item No. 4.

Chair Gonzalez asked, Ms. Fish, can we continue the item then with Item #3?

Vice-Chair McGoldrick asked Chair Gonzalez, technically can we say rather than to continue that item, can we say rather than #8 being Adjournment, #8 will then be Recessed?

Chair Gonzalez stated we won't be adjourning the meeting. We will be recessing it until Wednesday.

Ms. Fish, Commission Clerk stated this item could also be recessed until the Wednesday meeting.

Mr. Maynor stated with respect to this item, I think the authorization is for the Executive Officer to request release of reserves. She wants to begin the process. Is there a report in your packet on that issue?

Chair Gonzalez stated the only problem is I don't see how we could be authorizing her without any estimates of what the costs are. So that even if we had selected a consultant today, we wouldn't be able to take action on Item #4.

Mr. Maynor stated in view of the fact that we are having that meeting either Wednesday or the following Monday, the whole idea was to find out what those numbers would look like.

Chair Gonzalez stated this item would be recessed along with Item #3 for Wednesday. Ms. Fish, before we go into closed session, can we hear Item #7, general public comment?

5. CLOSED SESSION

CONFERENCE WITH LEGAL COUNSEL

Motion that the San Francisco Local Agency Formation Commission convene in closed session. Conference with Legal Counsel - Anticipated Litigation: Significant exposure to litigation pursuant to subdivision (b) of Section 54956.9. Claimant: E. J. Simpson (copy of claim is available for public inspection) for the purpose of conferring with or receiving advice from legal counsel.

Question: Shall this Motion be ADOPTED?

PUBLIC COMMENT

No Public Comment. Public Comment Closed.

ADJOURN TO CLOSED SESSION

Commissioner McGoldrick moved to adjourn into closed session; Chair Gonzalez seconded. No objection.

After a closed session, if one occurs, the Chairperson shall (1) request the Legal Counsel to identify the subjects discussed in the closed session, and (2) direct the Clerk to report the vote taken on any motion in the closed session.

[Elect To Disclose]

Motion that the SF LAFCo finds it is in the public interest to disclose information discussed in closed session, and directs the Chairperson immediately to disclose that information.

[Elect Not to Disclose]

Motion that the SF LAFCo finds that it is in the best interest of the public that the Board elect at this time not to disclose its closed session deliberations concerning the litigation listed above.

RETURN TO OPEN SESSION FOR ANY REPORTABLE ACTION

Commissioner Hall moved not to disclose the closed session deliberation concerning the litigation listed above. Commissioner Gonzalez seconded. No objection.

6. Future Agenda Items

Chair Gonzalez stated I think we have discussed what is going to be heard at the next meeting.

7. Public Comment on Items not on the Agenda

Chair Gonzalez stated to the members of the public anyone that wants to can also address the items that we continued. So if you want to say anything about the particular consultants or Item 4, that would be fine since we didn't take action on those items.

Dennis Mosgofian stated I didn't realize that when you invited me to make comments last week, come back this week and make comments, it would be on the consultants. I do have a couple of observations on the consultants, and they are probably politically incorrect but I will make the observations. First, I noticed that the only one of the presentations that I heard was clear on public was the outfit from Portland. They were clear right from the beginning, and their presentation was simple and to the point about serving public utilities, not private-investor utilities. They don't obviously have a conflict of interest. To me, that was impressive, although I suppose someone could say that there might be some bias there in favor of the public. Therefore, they would not be able to give such objective testimony or give objective analysis in the feasibility study.

I had a problem with a remark that was made by R. W. Beck. As somebody who has had over forty years of experience in the world that is included in a lot of

debates and struggles--I have a problem when someone comes up to the microphone and says what we do is we like to play the devil's advocate. I find it is always easy to tear down anything. It's very difficult to build something up. It's easy to destroy trust. It's hard to build trust. When we're trying to build something that will serve the best interest of the City and County of San Francisco and its residents, its businesses and its future, one needs to be thinking positively and not negatively. Even though R. W. Beck has performed a study for East Bay MUD, and I understand they have a good reputation. I have some concern about a firm that presents itself as wanting to play a devil's advocate role. I think you can be objective and analytical and not play that role. I would have questions about that.

Chair Gonzalez asked Mr. Mosgofian, I don't recall that particular remark that was made. Was it in the context of playing devil's advocate with recommendations that they might be making?

Mr. Mosgofian stated he made it in the context of facilitating giving you an objective analysis of facts in this situation. That's a method they use to get there. Don, I heard your proposal for hiring three out of the four. From my impression, from what you said both the Portland outfit and R. W. Beck are the equivalent of a general consultant and the others are more specific. I had some concern about why you wanted to include so many of them. When somebody needs to coordinate it all, I assume from your remarks that it would be either R. W. Beck or EES.

I was particularly appreciative of your remark, Supervisor Gonzalez, when you said that special knowledge of San Francisco should not rise to the level of a criterion by which the Commission would make a decision in hiring a consultant unless that knowledge is based on actual experience in having served the City, and you would want to look at it more carefully. That had to do with Flynn and Associates. Those were my remarks on this. I thought I was coming back today to say some of the things I had said last week. I know there's a limit in the time I have here.

Chair Gonzalez asked you gave us your general impressions of R. W. Beck and EES. What about Flynn and Associates other than the remark about the San Francisco experience?

Mr. Mosgofian stated I missed a good part of Mr. Flynn's presentation. I did hear something that bothered me. I think it was Henwood that said that they would bring in some senior people from PG&E as part of their consulting team. I wasn't so comfortable with Flynn, but I can't be so knowledgeable because I missed part of their presentation. My big concern here is who is going to serve the interests of San Francisco, and who is going to serve the interests of the private investors or PG&E? That would be the biggest criteria I would start from. Ultimately, if you are not interested in the primary purposes of serving the citizens and businesses of San Francisco, I don't think you have any business in being in the process. Since we are evolving from last year's campaign. We are not starting fresh. We are coming from a history.

Commissioner Fellman stated just for the record, I have familiarity with Henwood from my professional life. I was also puzzled by that comment. I think what he meant is that they have senior PG&E people who have retired from the utility and now are working for Henwood toward the Henwood projects.

Mr. Mosgofian stated I thought I heard a similar remark. I guess I was a little bit concerned too when someone asked how long have you been with EES? The woman said fourteen years and the other fellow said one year, and he came out of Edison. Now, I understand switching sides, but I have some concern, although their expression of interest in public was far clearer and stronger than the other consultants.

Chair Gonzalez stated Mr. Mosgofian, I think you are raising an issue as it relates to Henwood that we can clear up between now and Wednesday.

Commissioner Hall stated I think in going one step further than that, the EES person if I heard him right, was not only Edison but L. A. Water and Power and something else. He had twenty-one years of experience. Am I right?

Mr. Mosgofian stated that was a different person on L. A. Water and Power.

Commissioner Hall stated I think it was the same guy.

Commissioner Fellman stated we can look through the RFQ's.

Chair Gonzalez stated that was Alex Miller and Gail Tabone, I think.

Commissioner Fellman stated I guess we could ask Mr. Maynor to highlight that particular issue when he comes back to us.

Mr. Maynor asked about the background with respect to working for private companies? I will follow up on that.

Mr. Mosgofian stated I was aware that you were all mindful of the need to not delay in this process because before and after you've made your decisions, there is a lot of work that the consultants have to do and have to get you a report back. I am just concerned that we all collectively not end up like we did last year with a study that is going down the line, and a lot of people in San Francisco waiting for a report to take a look at. This looks like the final report will be after the fact of the new Prop F, the new municipalization charter amendment that will already be cast for the ballot. I would hope that whatever you do, that you expedite the process without making mistakes. I appreciate your deliberation and carefulness.

Richard Ow stated, he is with People's Budget, and I listened very carefully to all these competent consultants. They failed to address the people's need. I realize

some people do not have any problem paying their PG&E electric bill, but lots of our limited-income people, pensioners, and low-wage working people, their choice is go hungry or pay PG&E. In your final request for the result of the report, I hope that you establish or ask them to write so that all the citizens, every household, every small business can be able to pay their electric bill.

No further public comment. Public comment closed

8. Recessed

The meeting of the San Francisco Local Agency Formation Commission recessed at 5:15 p.m. to April 24, 2002 at 8:30 a.m. to discuss Agenda Items 3 and 4.

02
**San Francisco
Local Agency
Formation Commission**

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RECESSED AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

**Special Meeting
Wednesday, April 24, 2002 at 8:30 a.m.
City Hall, Legislative Chambers, Room 250**

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call
2. Interview of Applicants Who Responded to Request for Qualifications for San Francisco Local Agency Formation Commission Energy Consultant(s) and Selection. The applicants are:
 - Flynn and Associates
 - Henwood Energy Services, Inc.
 - R. W. Beck
 - EES Consulting
3. Discussion and Authorization to the Executive Officer to request release of reserves in the amount negotiated for the contract to provide energy consultant(s) services.
4. Future Agenda Items

5. Public Comment on Items not on the Agenda

6. Adjournment

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee Clerk of LAFCo, San Francisco Board of Supervisors, 1, Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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San Francisco Local Agency Formation Commission

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MINUTES

Recessed Meeting

Friday, April 24, 2002, 8:30 a.m.

City Hall, Board of Supervisors Chambers, Room 250

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick

Members: Commissioners Ammiano, Hall, and Schmeltzer

Alternates: Commissioners Peskin and Fellman

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order at 8:42 a.m.

Members Present: Chair Gonzalez, Vice-Chair McGoldrick; Commissioners Ammiano, Hall, Schmeltzer and Fellman.

Members Absent: None

2. Interview of Applicants Who Responded to Request for Qualifications for San Francisco Local Agency Formation Commission Energy Consultant(s) and Selection. The applicants are:

- Flynn and Associates
- Henwood Energy Services, Inc.
- R. W. Beck
- EES Consulting

Chair Gonzalez asked Donald Maynor, Esquire for an update from the April 19th meeting and stated that Commissioner Ammiano would have to leave the meeting at 9:30 a.m. to attend an MTA meeting in the East Bay.

Donald Maynor, Esquire stated that at the April 19th meeting, the Commissioners had asked him to consult with the consultants more about the project, get some cost estimates, and then make a recommendation at today's meeting. He sent the consultants an Executive Summary and Issue Matrix on Saturday morning and then scheduled a conference call with all of the consultants on Monday morning. They spent almost an hour talking about the Executive Summary and the issues, giving them a sense of what the project would likely be about. They had a lot of discussion on how the best way to proceed was. There was some concern about having too many consultants and not having somebody take the lead. It was agreed that the best approach would be to have one of two consultants, either EES or R. W. Beck to assume the lead of the project itself.

His recommendation would be to choose one of those two firms and to allow the lead firm to use Henwood and Flynn to the extent that it would be helpful to the project. Flynn's firm has some good information regarding the specific facilities and opportunities here in San Francisco. As you have learned, his firm has been paid to do work for the City. Henwood has good economic analysis, computers and software to do studies that would be helpful in identifying opportunities and quantifying them to a degree. He pointed out to all of the consultants that this kind of study is not easy. You want to have not only general information, but information specific to San Francisco to actually identify specific opportunities. To really quantify the extent of the opportunities would involve more sophisticated studies. You need more than a simple informational document. It is his recommendation today that the Commission would make available to the main consultant both Henwood and Flynn to provide information in the areas of specialty that was mentioned in their letters that he received last night and that the Commission has received copies of. Then, pick either R. W. Beck or EES as the main consultant to assume control of the report. It was also agreed that if any questions came up in connection with how the report should be handled, they could bring them back to Ms. Young and they could be resolved.

Commissioner Gonzalez asked what would guide the Commission in their decision to select either EES or R. W. Beck.

Donald Maynor, Esquire stated that both EES and R. W. Beck are both qualified firms and have both done similar types of studies because they have already identified some of this information. Their cost estimates were in the same range. He has had a lot of experience with R. W. Beck over the years and no experience with EES, therefore has a hard time giving a recommendation on EES based on his own personal experience. He has worked with R. W. Beck in the past. They have done a lot of studies like this, and he feels that the Commission would be comfortable with the product that they would provide. The difference between the two companies is that EES is from the Northwest and would give a better picture of the west coast marketplace. R. W. Beck is a Seattle firm, but the folks that will be working on this project are from California and have a lot more experience working

with California public agencies. R. W. Beck has done bigger municipalization project studies, so they have more background in doing the bigger studies than EES.

Chair Gonzalez asked the Executive Officer if she had any comments.

Gloria L. Young, Executive Officer concurred with Donald Maynor, Esquire. She was involved in the interview process. Her first selection was Flynn and Associates because she thought that they brought a great deal of expertise, although there was some concern about the areas that they would need support in. They did in fact have knowledge about the City and County of San Francisco having worked with the Public Utilities Commission (PUC) on a number of projects. She thinks the proposal in terms of using several of the firms, one as primary and two as secondary would meet the needs of the Commission.

Commissioner Ammiano concurred with Ms. Young and acknowledged Mr. Smeloff, who was in the audience. He suggested that whomever they select, that they sit down with Mr. Smeloff so that there would be no duplication of duties. He knows that he has been working on similar areas in the power level.

Donald Maynor, Esquire stated that there was a lot of discussion on that point. It is very important that the City staff be available to the consultants for that purpose because in order to make this study valuable, they need to know what is going on in the City and what information is available. In addition, we need to capture what took place in the public hearings and include that as an appendix to the study because there is a lot of valuable information that came out of that process as well.

Commissioner Schmeltzer stated that in reviewing the new documents that they had just received, she is noticing that the amount of time proposed by R. W. Beck is half the time that EES proposed.

Donald Maynor, Esquire stated that R. W. Beck noted 250 hours as the amount of time proposed to complete the project.

Commissioner Schmeltzer stated that EES noted 500 hours as the amount of time proposed to complete the project. She asked if the conference call between Mr. Maynor and the energy consultants included the time involved.

Donald Maynor, Esquire stated that he urged the consultants not to put too much emphasis on the cost and time because it is very difficult to estimate without knowing what the study is going to look like. The next step would be to sit down with the selected main consultant over the next few days and sketch out what the exact study should like and then get better time and cost estimates. These proposals were to give the Commission more of a ballpark amount. The Commission should not put too much weight on these amounts.

Commissioner Schmeltzer stated that what was noticeable to her was that for a \$15,000 difference, the Commission would get twice as much time from EES Consulting.

Donald Maynor, Esquire stated that EES discussed an additional management fee.

Commissioner Fellman asked whether Mr. Maynor's recommendation would be to select either EES or R. W. Beck as a primary contractor and asked if the Commission should select secondary contractors, or if that would be discretionary on the part of the primary contractor.

Donald Maynor, Esquire stated that he would recommend entering into three contracts. The extent to which the main contractor would use the other two contractors would be to some extent at their discretion. You want to find out what information these other two contractors have, what value they can bring to the report and that needs additional conversation and discussion. It may mean they would have a significant project or a minimal one. If you do not enter into the contracts now, it may create a problem later on. It was his sense after interviewing Flynn and Henwood, that they had valuable contributions to add to the report. He also thinks that there is good value to having more than one consultant involved in getting peer review and alternative viewpoints on some of these issues. The Commission was also concerned with losing time as a result of having too many consultants. In his discussions on Monday, he thought time would be minimized if one consultant would assume control of the process.

Commissioner McGoldrick concurred with the very well informed recommendation that Mr. Maynor had made. He asked Mr. Maynor if he would see R. W. Beck as the prime contractor assuming control of the report.

Donald Maynor, Esquire stated that he would see either EES or R. W. Beck as the prime contractor assuming control of the report as both are qualified. His recommendation would be R. W. Beck simply because he has had more experience with them, and they have done bigger projects. But if the Commission feels from their own review from the material and presentations that EES is a better choice, they certainly are capable of assuming control of the project.

Commissioner McGoldrick stated that he feels that above all it is the value that Mr. Maynor brings to the recommendation, his experience with the energy consultants. After reading their reports, interviewing, and talking to them, the Commission could just go so far. Past experience is one of the things that he relies on most and tends to want to go along with Mr. Maynor's recommendation.

Commissioner Gonzalez stated that from the meeting that was held on April 19th, that he liked EES Consulting and R. W. Beck. He was hesitant to move forward with the possibility of Flynn and Henwood. Particularly, Flynn as having control of the project. He thought that their San Francisco experience, while relevant, did not bring

him to the level of confidence that he had with the other firms. He thinks what counsel is suggesting would be a good way to proceed in terms of making a selection between R. W. Beck and EES. He would like to hear thoughts on who the Commission would prefer. He leans toward EES as he liked their presentation and he did find compelling that some of the senior members of their firm would be participating. However, he would be satisfied with either firm.

Commissioner Hall confirmed with Mr. Maynor his statement that he would pick either EES or R. W. Beck as the main consultant. The difference is that R. W. Beck has had a larger scope of operations or experience and EES more specific. He asked if Mr. Maynor could go a little bit further other than his experience with R. W. Beck. Would EES have the same amount of experience as R. W. Beck on a large-scoped project such as this one?

Donald Maynor, Esquire stated that R. W. Beck is a larger firm and he thinks they would have more resources to rely upon.

Commissioner Hall asked Mr. Maynor what he meant by resources.

Donald Maynor, Esquire stated resources within the firm. R. W. Beck has done an extensive amount of work on appearing in trial on condemnation and valuation of electric facilities. EES has had minimal experience in that area. However, he does not think that would be a major focus in this phase of the study. If this would be a second part of the study, then clearly R. W. Beck has an advantage in that area. R. W. Beck has had more experience working with utilities in California. One of the gentlemen who is assigned to the project used to operate as a manager in SMUD. You would have more local, regionalized experience in California. They have a Sacramento office and so they are very much in the hub of what goes on with public power. In terms of contracts with municipal utilities, they would dominate versus EES. But EES has worked with a number of California utilities. There is no question that they have adequate experience in California to do a study like this.

Commissioner Hall asked if the difference in hours would be reflected in different approaches that experience might bring.

Donald Maynor, Esquire stated that it is hard to know what was in the energy consultant's minds when they looked at the project, and how they valued the time. He wouldn't put too much emphasis on these letters because it was not the purpose of the letter to submit a project with a cap or legal limitation--it was more to get a sense.

Commissioner Hall stated that he particularly liked the fact that with EES the principals themselves would be involved. He asked Mr. Maynor that if in his past experience with R. W. Beck had worked with the principals or others.

Donald Maynor, Esquire stated that he had worked with two people that have made appearances here. Mr. Mellor, he believes is a principal in the Sacramento office or is a high level person. He is not sure the Commission is getting low-level participants from either company.

Commissioner Schmeltzer stated that she recognizes what Mr. Maynor is saying about the emphasis on these letters, and she does think that the Commission would want to talk more about the focus of what the report should look like. In looking at the number of hours for the amount of money being spent, for 250 hours you will get one draft and it would be hard to spend too much time to get a second substantial revision within the amount of time proposed. She understands that the amount of time could vary. That is when she would start looking at the amount of money you would have to get another substantial draft if the Commission decides it is needed. Her concern, and seeing that one of the companies has significant more hours available, says that you would have the cushion to have a lot more work in one area. It depends on what you like what you see to begin with.

Donald Maynor, Esquire stated that what Commissioner Schmeltzer said was true. If you have a lot of experience in an area, you can spend a lot less time coming up with the same result as somebody who hasn't done it as much as you have. This is a very important study for San Francisco. When you look at feasibility cost studies and what you are going to spend looking at transmission, you will spend huge sums of money and may spend a little bit more over budget than originally intended. He would be concerned with costs, but he thinks it would be well worth the Commission's time to have a quality report. He thinks the Commission could get a quality report from both consultants. It may take EES more time to come up with the same quality report than R. W. Beck because R. W. Beck has done the bigger studies and may have more in-house knowledge.

Commissioner Fellman pointed out that R. W. Beck had done the East Bay MUD study which was distributed to the Commissioners and that completed the background that the Commission wants to look at. Any consultant is going to have to rely on that. The Commission wanted whoever we picked to rely on that study already. So we have R. W. Beck as one of our final contenders that has done the work. Presumably since it is a public document, we would be able to use the benefit of their expertise in this. We are going to be using it anyway. She thinks Henwood is excellent on the analysis and Flynn is excellent on the localized knowledge as she is familiar with their work. Her recommendation would be R. W. Beck because the Commission can build on the work that they have already done that would cut down on the time necessary to do the work, along with the connection with Flynn and Henwood.

Commissioner Ammiano stated that if the Commission would get R. W. Beck's best people because they are so large.

Donald Maynor, Esquire acknowledged Mr. Bell from R. W. Beck in the audience. Mr. Bell asked if he could sit in on the meeting as he was here on other business. Otherwise, it was agreed that the consultants would not be here to make presentations this morning. He stated that Mr. Bell and Mr. Mellor, who gave their presentations on April 19th, are senior people in the Sacramento office and that the Commission is getting their highest level California folks assigned to the project.

Commissioner Fellman stated that when the Commission is negotiating the scope of work, her other recommendation would be that we look toward a ceiling on the cost of the contract and negotiate the scope of work within that ceiling. It would be desirable to have a fixed price. She understands that can't always happen but at least have a ceiling so we know that for the price we are going to pay, we are going to get a complete set of work, rather than just a first draft. In addition, she suggested that the Commission have an opportunity to comment on the drafts and that the final product reflects the input of the LAFCo as well.

Commissioner Hall stated that he agrees with Commissioner Fellman, but he feels it should have been done already, and that approach should be before us now—to put a ceiling on the product the Commission wants. Are we able to do that now?

Donald Maynor, Esquire stated that if Flynn and Henwood are added, the Commission is looking at a \$100,000 project. There is some money that the Commission is going to spend on analysis of the two legal entities that would be handled by Ms. Miller.

Commissioner Hall asked if the Commission is defining what they want to get for that \$100,000 and if the consultants know what product the Commission wants. Not to say that here's \$100,000, you tell us the best way to go.

Donald Maynor, Esquire stated that we came up with an Executive Summary, Issues Matrix and the next step, if the Commission is agreeable, is that he would like to spend time with whomever the Commission chooses as the main consultant and work out how it will be implemented, who is going to do what, how long it's going to take, where the emphasis should be, and where the opportunities are to be developed. That way the Commission gets the most for their money and gets a report with direction and substance to it. After that meeting takes place, the consultants can go ahead and implement it. If they have some problems or need some feedback along the way, then we are available to do that. There should be a draft that becomes available sometime mid-June. The recommendation is that when a draft becomes available that there be a public hearing where the public gets an opportunity to comment on these issues as well as look at the draft. Then, Commissioners and the public would have an opportunity to say "it's a good start, but we need more information in this area, or you really didn't talk about this issue, and it is important to us, and we can expand and modify before the Commission has a final document."

Commissioner Hall asked if the project would be capped off. Would the consultants come back to us and say this phase is going to cost "x" amount of dollars over and above what we are expected to do at this point and time?

Donald Maynor, Esquire stated that if we sat down with the consultants and they came up with an approach that was twice as expensive as \$100,000, adjustments would have to be made. We would stay within that \$100,000. On the other hand, if you have your study and in the public hearing process, you say you really like what Henwood did over here but would like more information, it may cost more to get that information. So if the Commission wants more than is proposed when the draft comes out, there would be a possibility of additional costs. But, the intent is clearly to stay within the budgeted amount.

Commissioner Hall asked if each and every consultant is bidding on the same set of parameters at this point in time.

Donald Maynor, Esquire stated that wasn't the case. The difference is that the project parameters are the same, but Henwood and Flynn would both pick up discreet pieces of the project. EES and R. W. Beck said they would assume the role of doing the whole project and at the same time be able to use Flynn and Henwood to the extent that would be useful. They are assuming the same parameters, but their role is that of the main consultant.

Commissioner Hall asked if R. W. Beck is talking about using Flynn or Henwood in areas of expertise that they don't have or should they need them.

Donald Maynor, Esquire stated that both EES and R. W. Beck have expertise in those areas and they could spend a lot of time having as much expertise as Henwood and Flynn do, but that may not be a good use of the allocated money.

Commissioner Hall asked if it would be more expeditiously efficient to use Flynn. He asked if there is a basic difference between EES and R. W. Beck.

Donald Maynor, Esquire stated that EES and R. W. Beck are very similar. He would say that the difference between the two is size. EES is a miniature R. W. Beck. Both are capable of doing and handling this role as the main consultant for this project. Both of these firms are capable of doing the whole project themselves.

Commissioner Hall asked which outfit, R. W. Beck or EES was more supportive of going to Flynn and Henwood.

Donald Maynor, Esquire stated neither one.

Commissioner Hall asked if both mentioned using Flynn or Henwood.

Donald Maynor, Esquire stated that that was the understanding that they came to when they met as a group on Monday, and no one had a problem with the idea.

Commissioner Fellman recommended that what the Commission needs to do as a process is pick the primary contractor, have discussions with them regarding the scope of work before entering into the contract. During those discussions, areas where the consultants may need support should be identified. It may be that they don't need the support that we think they need right now. If Mr. Maynor said that we would want to enter into a contract with all three, she would recommend that the Commission identify a primary consultant as the definitive contractor and then put Henwood and Flynn on reserve, with the understanding that after the negotiations, we would identify what their scope of work would be if any. It may be that analytical work is not needed with R. W. Beck or EES. She stated that Flynn's expertise in San Francisco that no one else has would probably be needed.

Commissioner Gonzalez asked if that was similar to Mr. Maynor's suggestion.

Donald Maynor, Esquire stated that was an implementation issue. Whatever is easiest and he doesn't want the Commission to have time slip as a result of not having contractors available.

Commissioner Gonzalez stated that the Commission has heard his preference for the two firms and asked to hear what the rest of the Commission is thinking in order to make a motion. He would be prepared to change and support either EES or R. W. Beck but has a preference for EES.

Commissioner Schmeltzer stated that she was somewhat torn between EES and R. W. Beck. She liked what she heard from EES; however, she does not have familiarity with their work and has not seen their reports that they have done. She has seen R. W. Beck's work in the past, in particularly, the East Bay MUD study. She would have liked to see more detail in the study, but she thinks it is a good study to build from. On balance, the California and Bay Area experience would lead her to recommend R. W. Beck. Perhaps in the future, when they have seen the work from EES and some of the reports they have done somewhere else, the Commission would have more comfort with them.

Commissioner Hail stated that he would echo Commissioner Schmeltzer's feeling because he feels there may be more of an advantage with R. W. Beck. His concern and his questioning to Mr. Maynor was based upon the personal input of the principals of the company. He doesn't want R. W. Beck, if they were chosen, to say "we could go here, go here," and it is going to cost so much more. He is not accusing them of that, but he wants to make sure they can do the work and are fully aware of what they are getting themselves into.

Vice-Chair McGoldrick stated that he expressed confidence in the recommendation that Mr. Maynor had brought forth, and he would support that process whereby Mr. Maynor works out the details. He recommended R. W. Beck.

Commissioner Ammiano stated that he recommended R. W. Beck.

Commissioner Fellman stated that she had already expressed her preference with R. W. Beck based on their current work.

Chair Gonzalez stated that a motion was taken from Commissioner Schmeltzer, seconded by Commissioner Ammiano, with unanimous consent that the primary energy consultant chosen is R. W. Beck, and that an agreement be made as to how both Flynn and Henwood's services would be utilized.

Commissioner Fellman recommended that the Commission appoint a Sub-Committee to work with Mr. Maynor and Ms. Young in negotiating these agreements so we could move expeditiously to figure out the scope of work.

Gloria L. Young, Executive Officer suggested that if the Commission is interested in that process in order to more quickly move the process, she would strongly urge that the Commission appoint two Commissioners instead of a Sub-Committee. That way, the Commission does not have to have public hearings to go through the negotiation process.

Commissioner Fellman stated it could be called a Task Force.

Chair Gonzalez asked if Mr. Maynor agreed.

Donald Maynor, Esquire agreed.

Commissioner Schmeltzer stated that she would be happy to volunteer for the Task Force.

Chair Gonzalez asked if whether a Task Force consisting of Commissioner Schmeltzer, Commissioner Fellman and himself would comprise a majority of a LAFCo and therefore cause a problem.

Commissioner Fellman stated that Nancy Miller, Esquire's legal opinion was that both Commissioner Schmeltzer and herself count as one vote because Commissioner Fellman is an alternate.

Chair Gonzalez asked the Commissioners if they would prefer to participate. He asked when the Executive Officer expects these meetings to take place.

Gloria L. Young, Executive Officer suggested that the Task Force meet as soon as possible and would have the LAFCo Commission Clerk pull together calendar dates so a meeting could be held in the next week or so.

Commissioner Hall asked how many meetings would be involved and how long each meeting would take.

Gloria L. Young, Executive Officer stated two, no more than three meetings that would last at least an hour to make it reasonable and substantive. Mr. Maynor may also want to participate.

Chair Gonzalez stated that Commissioner Hall is deferring to him, so the Task Force would consist of Commissioner Schmeltzer, Chair Gonzalez and Commissioner Fellman.

Gloria L. Young, Executive Officer suggested doing the first meeting as a conference call.

Donald Maynor, Esquire stated that for the first meeting, he would try and get the other consultants involved to see what they could contribute and Mr. Smeloff in terms of what the City has available. That would help the energy consultants give the Commission a better cost estimate of what it is going to take to do the project. He thinks that the more information that is available at the initial meeting, in terms of putting the contract together would not be difficult, but he thought they did a good job in identifying what the study would look like. Now it is a question of who has the information, how much time it is going to take to get it, and which of the consultants would be used to facilitate that process. He thinks one meeting would solve a lot of questions.

Chair Gonzalez asked if we could move onto Item Number 4 before Commissioner Ammiano has to leave. He would like his opinion on the item.

No Public Comment

Public Comment Closed

3. Discussion and Authorization to the Executive Officer to request release of reserves in the amount negotiated for the contract to provide energy consultant(s) services.

Gloria L. Young, Executive Officer recommended that the Commission request a release of reserves of \$364,000 from the Finance Committee. That would give the Commission \$100,000 for the consultant services in addition to the legal consultant services to take us through the end of this fiscal year. Also, this budget year is ending quite quickly and we have less than \$50,000 in our existing budget to use that is not unallocated reserve. In order to continue the operation of the Commission, we need to ask for release of those funds so we have an operating

budget when we move into the fiscal year. She stated that she went through the budget hearing process with the Budget Committee of the Board of Supervisors. The Budget Analyst and the Controller's Office recommended that we use the existing \$364,000 of unreserved amount and that we request from the City and County of San Francisco the additional funds that would bring our budget to its full total of \$458,000. That way, we would not be requesting a replenishment of the budget in the amount that she had indicated in the budget document. She will bring that back to the Commission as the Commission goes through the final budget hearing in May. The release of \$364,000 would be the Commission's operating budget that would be added to for the fiscal year.

Chair Gonzalez asked to go back to the first item of \$50,000 for the unallocated reserve and that the Executive Officer wants to go to the Finance Committee.

Gloria L. Young, Executive Officer stated that we have approximately \$50,000 remaining in our existing budget that we are currently spending for salary support, Commissioner stipends, CALAFCo fiscal year membership dues, paper, supplies, and notices. She expects that that amount would be expended before the end of this fiscal year. We also have had additional support from the attorneys in which an additional \$25,000 is needed to add to the allocated \$100,000 for the fiscal year. Her request is for an approval from the Commission to go to the Finance Committee and request a release of \$364,000 that would include the money to set aside for the use of energy consultants.

Chair Gonzalez stated that seeking the release of the reserve would not commit the Commission in terms of whatever the budget is that is being put together with the energy consultants. You are simply asking the Finance Committee now that we are in the eve of moving forward on the item to release the reserve.

Gloria L. Young, Executive Officer concurred.

Chair Gonzalez stated that there was a lengthy discussion at the Board of Supervisors when we dealt with the LAFCo budget. Because of our unique situation as a state agency, the whole process of going to the Finance Committee for a reserve is virtually a courtesy, but he thinks it is a good practice and he is satisfied that Ms. Young has it under control.

Commissioner Hall motioned to approve for the Executive Officer to request a release of reserve of \$364,000 from the Finance Committee; Chair Gonzalez stated that it was unanimous to take that action.

No Public Comment

Public Comment Closed

4. Future Agenda Items

Chair Gonzalez stated that he would like to invite Mr. Smeloff to attend a future meeting to make a presentation to the Commission concerning his proposals and remarks that have been in the press in regards to his thoughts on how the City should proceed. At the same time, he recommended holding a calendar discussion about the power authority measure that went to the ballot and discuss some of the components of it. He asked if either Commissioner Ammiano or a member of his staff would be willing to make a presentation on this subject.

Commissioner Ammiano concurred.

Chair Gonzalez suggested discussing Assemblyman Kelly's proposal around San Francisco's bankruptcy litigation. These are things the Commission should move towards and get some kind of discussion going while our consultants are working on the matters we just dealt with.

Donald Maynor, Esquire asked if the Commission wanted to be informed about what direction the bankruptcy proceedings are going.

Chair Gonzalez stated specifically as to what the Assemblyman has in mind in terms of how we might use it as an opportunity. If Mr. Maynor or Ms. Young could contact his staff and see if anybody there would be available to make a presentation.

Donald Maynor, Esquire stated that he had already spoken to one of the lawyers in the City that is assigned to that issue, and she is very well acquainted with the proposals and what is going on there.

No Public Comment.

Public Comment Closed.

5. Public Comment on Items not on the Agenda

No Public Comment

6. Adjournment

The meeting of the San Francisco Local Agency Formation Commission adjourned at 9:30 a.m.

✓ San Francisco
Local Agency
Formation Commission

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AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

Special Meeting
Friday, May 10, 2002, 2:00 p.m.
City Hall, Room 263

Chair: Commissioner Gonzalez; Vice Chair: Commissioner McGoldrick

Members: Commissioners Ammiano, Hall, and Schmeltzer

Alternate Members: Commissioners Peskin and Fellman

DOCUMENTS DEPT.

Clerk: Monica Fish

MAY 3 2002

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SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call
2. Approval of Minutes of the Commission Meeting and Public Hearing of April 12, 2002 and Commission Meeting of April 24, 2002. Action Item.
3. Presentation by Ed Smeloff, Assistant General Manager for Power Policy, Planning and Resource Development, San Francisco Public Utilities Commission.
4. Public Hearing: Discussion and adoption of the proposed SF LAFCo 2002-2003 FISCAL YEAR BUDGET (Government Code Section 56381.) Action item.
5. Report by Commissioner Ammiano regarding the public power authority measure.
6. Report on the status of Assemblyman Kelly's bill (AB 2266).
7. R.W. Beck, Energy Consultant status report on the scope of work and timeline for the SF LAFCO Energy Services Study.
8. Future Agenda Items

9. Public Comment on Items not on the Agenda

10. Adjournment

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee Clerk of LAFCo, San Francisco Board of Supervisors, 1, Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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San Francisco Local Agency Formation Commission

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Special Meeting
Friday, May 10, 2002, 2:00 p.m.
City Hall, Room 263

Chairperson: Commissioner Gonzalez; Vice Chairperson: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chairperson Gonzalez at 2:10 p.m.

Members Present: Chair Commissioner Gonzalez, Vice-Chair Commissioner McGoldrick; Commissioner Schmeltzer and Commissioner Fellman.

Members Absent: Commissioner Ammiano and Commissioner Hall

2. Approval of Minutes of the Commission Meeting and Public Hearing dated April 12, 2002 and Commission Meeting dated April 24, 2002 (Action Item).

Vice-Chair Commissioner McGoldrick moved to approve the minutes. Minutes were duly seconded. No objection. Minutes approved.

No Public Comment

3. Presentation by Ed Smeloff, Assistant General Manager for Power Policy, Planning and Resource Development, San Francisco Public Utilities Commission.

Mr. Simeloff stated I have a prepared presentation and ready to take questions from you. Let me start out by saying I have met with your consultants, and our office is fully prepared to cooperate with them to share data and work together so there isn't any overlap or redundancy. I think this can be an effort where the Electricity Resource Plan that we're going to bring forward to the Board of Supervisors around June 3rd will be complimented with the work that the LAFCo Commission is doing.

I thought I would walk through some of the things we have developed in the Electricity Resource Plan. We have held eight public hearings throughout San Francisco and have taken input from a variety of people in the community, as well as written input. We have developed several goals that we think should inform any legislation or charter amendment that should be what we're aiming to achieve here in San Francisco.

1. Support and develop renewable sources of electricity. The voters strongly supported that in the last November election.
2. Maximize energy efficiency. It's both the most environmentally benign and least costly in many cases meeting our long-term needs. You will see even in the short-term, given some of the vulnerabilities that San Francisco has, is a very important resource.
3. Assure reliable power. Obviously it is an increasing technology. In a technological society, reliability is even more important than it had been in the past. San Francisco has some vulnerability that gives it a less reliable system than other parts of the state.
4. Support Affordable Electric Bills. I use the term electric bills specifically rather than rates because that is what people pay. Electric bills are a combination of both the rate and volume of the commodity that they use.
5. Improve Air Quality. Improving air quality is a key issue in San Francisco. The largest industrial polluters in San Francisco are the two power plants that are located in the City. You would have a substantial improvement in air quality if we use them less or close them.
6. Support Environmental Justice. We held several meetings out in the Bayview, and it's a major issue in the City because many of the infrastructure that you need for an operating city are all located in the low-income and predominantly African-American, Latino neighborhoods.
7. Increase Local Control over Energy Resources. Particularly now with deregulation, we've seen that relying on others to meet your needs or relying on market forces for such a vital commodity can have some very disruptive effects.

Let me describe the vulnerabilities that we face in San Francisco. We're pretty unique. We are really the most vulnerable part of the state for electric reliability. All of the power that we import comes in through two sets of substations, one at San Mateo County and one near the Cow Palace. All of our transmission lines are subject to disruption at either one of those substations. Or if there were an airline that flew into the lines which all go right into the International Airport, we could lose electricity as was the case in December 1998. Our system is limited. We can't import all of our needs. We will see later in one of the slides that about 30 - 35 percent of the time we need to be operating plants in the city to meet our needs.

The plants that we do have in the city are very old. Hunter's Point is 44 years old; Potrero is 37 years old. Plants that old tend to break down a lot more than new plants and they are less efficient and dirtier. Obviously, our dependence on these old plants impacts air quality and people's health. I think this is really important why we are addressing this issue. The current market realities in California, but really nationwide, have undermined the basic assumption of deregulation, and that is the private investors would invest in new power plants based on forward price curves and their perception of risk. That is not happening in California and it is not happening in the eastern states where deregulation has occurred.

What's happening now is that the power plant developers are demanding to be secured through long-term power purchase contracts. The plants we're seeing developed in California, the Calpine Plants and others are being done so because they do have long-term contracts including the ones proposed for San Francisco, like the Merant Plant. They have told us clearly that they need a long-term power purchase agreement to proceed with construction. It's a big vulnerability given the current uncertainties about who is going to buy. We don't have other than the state any creditworthy buyers of electricity other than some other public power entities in the state. Lastly, one of our vulnerabilities is what you see being built in California and elsewhere are natural gas plants. Gas is clean and is relatively abundant. But putting all your eggs in one basket is not a prudent policy.

One of the things driving the whole interest in local control and our resource plan is shutting down Hunter's Point Power Plant. This is the Mayor's top priority for San Francisco is to achieve that as soon as possible. Operation of the Hunter's Point is a little bit peculiar even though PG&E owns the plant, doesn't really control when it operates. It only operates when dictated to do so by the Independent System Operator (ISO). It's what we call a Reliability Must Run Power Plant so the ISO says turn it on. They actually pay PG&E a pretty substantial availability fee just to have that plant there available to run to meet the needs.

The Mayor and PG&E have signed a binding agreement. PG&E has agreed to shut down Hunter's Point as soon as the ISO makes a finding that it's no longer needed for reliability. We did have a success at the ISO a couple of weeks ago. We got their governing board appointed by Governor Davis to agree for the very first time that they will sit down with the staff of the City and other stakeholders and come up

with a plan for the shutdown. Up until that time, senior management of the ISO didn't recognize that the ISO had a role in the shutdown of Hunter's Point. It's an important step. Hunter's Point, even though it only meets eight percent of all of the electricity used still produces a pretty substantial amount of power, enough for about 100,000 apartments in the City. It was available to operate 5800 hours. There is 8760 hours in a year. So you see the plant given its age was not available for a new plant. New plants are available 90 to 95 percent of the time.

Vice-Chairperson McGoldrick asked if the Potrero Plant was not under the ISO Must Run?

Mr. Smeloff stated it is. It actually has the very same contract. It is a Reliability Must Run. But it runs a lot more of the time because it tends to be a more reliable plant, and the ISO dispatches that plant first.

Vice-Chairperson McGoldrick asked which plant was subjected to fines?

Mr. Smeloff stated those are Merant's peakers. They are at Potrero. Potrero has a base low plant, three peakers. In 2001 they ran beyond the hours they were allowed to under the Regional Air Quality Management District so they were fined for that.

Vice-Chairperson McGoldrick asked so that wasn't a Reliability Must Run situation?

Mr. Smeloff stated what happened with those peakers was last year during the energy crisis, so many plants were unavailable for operation. When the utilities lost their creditworthiness they didn't pay so-called qualifying facilities, these third party plants. So in order to have enough power, the ISO did order Merant to run these plants and then Merant actually made a substantial amount of money doing it when the prices were very high as well.

Vice-Chairperson McGoldrick asked but in the meantime the Air Quality Board fined Merant?

Mr. Smeloff stated actually, the Air Quality Board gave them an exemption from their license, and then the City sued both the Air Quality Management District and Merant. Then, there was a settlement on that lawsuit.

Commissioner Schmeltzer asked when you say that the plant was available to operate, is that the number of hours that it was not down for maintenance?

Mr. Smeloff stated that is the number of hours that it was reported to the ISO that it was available to operate under its RMR contract.

I thought I would show you what a load curve looks like for San Francisco. I said there was 8760 hours in a year. The peak day occurred last January 2001 at 875 megawatts. You see that we get down to a little bit less than 400 megawatts in the

wee hours of the morning. The reason I put this here is to show you that later we had the ability to import about 640 megawatts, which is about 3000 hours. All the rest of the time we were relying on resources located in San Francisco. This is how we meet our needs. We import up to 640 megawatts and we have the two big plants, one at Potrero and one at Hunter's Point. There are actually four peaking plants. I only listed three, because the way the ISO treats it as they assume that one plant won't come on when started. So what we really have available for reliability purposes is three plants equivalent of 156 megawatts.

This shows how the plants have been operating in the past years. There used to be four plants out at Hunter's Point. Two were shut down in 2000. So there is only the large plant and the peaking plant. So the use of Hunter's Point actually is declining--it was 8 percent last year. Where Potrero has been increasing--it's up to 22 percent of all of the electricity sold comes from the Potrero Plant. Hunter's Point really only operates during peak times when the power is needed, and Unit 3 is not enough. But it also operates when Unit 3 is out of service for repairs or when it breaks down unexpectedly.

I wanted to point this out to you because what we are facing here in San Francisco, and I really want to underline this is a big potential crisis in 2004 and 2005. In 2005, the Clean Air Act requires that all of these old plants substantially reduce emissions of oxide and nitrogen, cutting them more than half from 43 parts per million down to 19 parts per million. The only way you can do this is putting on end of the stack technology that cuts down on the emissions. This will have to be done at Potrero in 2004, and that plant will be out of operation for at least three months, perhaps longer. There are also some major repairs. So in 2004 we're facing a situation during the fall of the year when our reliability is dependent on a plant at that time that will be 46 years old. So we need to do certain things beginning now. The charter amendment you are conceiving should create the right kinds of authorities and powers so we can effectively reduce peak demand and get resources in place in the next 30 months so that we have reliability come the end of 2004.

In 2005, the issue really is what happens to Hunter's Point? PG&E is facing a dilemma whether they either have to make major capital improvements in that plant, perhaps as much as 30 million dollars to put on this Clean Air technology or face not complying with the Clean Air Act. If they put on that amount of money, then they are going to expect to be compensated for that and try to keep that plant in operation a lot longer. So if we're going to meet our goal of commitment to the community in Bayview Hunter's Point to shut it down, we really need to act so we get some resources in place by 2005.

We have a lot more detail in our Resource Plan, but we've done some projections, looked at what the California Energy Commission has done and what the growth in electricity demand will be in San Francisco over the next ten years. We have three projections. One will show you how inherently unpredictable or subject to economic changes. Back during the .Com days of 1999, we were forecasting well over 1300

megawatts of electricity demand in San Francisco by the year 2012. That was revised last year by the Energy Commission and dropped the demand down to under 1200. In 2001, we really saw a remarkable reduction in load in California and in San Francisco. Statewide, people reduced their electricity consumption by about 6 percent. Our peak demand in San Francisco went down from 940 to 875 and if you really look after the price spikes, in May, the summer peak was down to 840, almost a 100-megawatt reduction from the year before. Some of that was behavioral. Some of that is a result of investment and more efficient technologies. What we've done is forecast based on last year's 2001 and increased it by 1 1/2 percent. It shows that by the year 2012, we'll be a little over a 1000 megawatts. That's what we have to plan for. The ISO is still saying we have to plan for that middle line. They're being more cautious. That means you need to put more resources in place. Between the low line and the high line, our gap in 2005 when we need to replace Hunter's Point is between 130 megawatts and 305 megawatts. So we're really challenged how we're going to get that in place. We need to have the tools here in San Francisco to do that. These are the resources that are really feasible that I have identified. There may be others out there.

Chairperson Gonzalez asked Mr. Smeloff the point that you are just making related to the gap being 130 to 305 megawatts?

Mr. Smeloff stated maybe I need to explain that better.

Chairperson Gonzalez asked why wouldn't it just be adding Potrero and Hunter's Point together because they're not operating at the same time?

Mr. Smeloff stated this is what is available in each of these years assuming that you have taken Hunter's Point and shut it down. Then, you need to plan your system in a way that the largest unit can break down, and you still have enough resources to meet the need. So if Potrero is unavailable because it is out for maintenance or it breaks down, you have a gap between roughly 800 and whatever you believe the peak demand is going to be for that year. That is what we have to fill. You will always need to operate the system assuming that the largest resource that you have could break down or be tripped offline for one reason or another. That's how we assure reliability.

These are the resources that we are looking at. There's been a lot of controversy and a lot of discussion about Merant's proposal to build this very large power plant down in Potrero, 540 megawatts. That's now before the Energy Commission for its license. They haven't yet set a schedule. A lot of challenging issues Merant faces just in the licensing process, let alone trying to finance this plant.

Commissioner Fellman asked what is the scheduled online date for Potrero 7 if everything would fall in place and they would get a contract?

Mr. Smeloff stated realistically, I think you need to plan for two years of construction after they obtain their license. Assuming there's no legal challenges, which I think given the controversy of it, particularly if they don't change their cooling system. I guarantee you if they use once through cooling try to use the quantity of bay water they are proposing, there will be legal challenges that could tie it up for a couple of years. If there were no legal challenges, perhaps they could get it online in mid 2006. It doesn't really solve the 2005 problem. It's going to take some real focus to solve that problem.

The Jefferson Martin transmission line is being proposed to be built by PG&E. It goes up a different pathway up the peninsula and connects into San Francisco near the Cow Palace. It just got approved by the ISO to allow the cost of that line to be recovered from ratepayers. It now needs to be approved by the California Public Utilities Commission that needs to give it a Certificate of Need and then do an Environmental Impact Report Analysis for that. Jefferson Martin can be online, PG&E is estimating in September of 2005. We're trying to push them to crash that so they could get it in place before the summer of 2005 so we could avoid the problem with Hunter's Point. It goes through some pretty well connected neighborhoods in San Mateo County, Hillsborough, and places like that. The transmission lines are controversial even though this one will go underground most of the way in Northern San Mateo County.

There are a couple of power plants that we could build elsewhere. There is an opportunity to build a co-gen plant downtown where we have existing boilers to provide steam for the downtown steam load in the various hotels and office buildings. Developers come forward to us and ask us to enter into a power purchase contract to support that. We're analyzing that and we've actually encouraged them to begin discussions with PG&E to interconnect to the Mission Substation down at 9th and Mission.

The University of California has approached us to form a Joint Powers Agreement to build a power plant out at Mission Bay Campus. They have already put in place a steam loop and chilled water loop to make the campus ready for co-generation. The university has told me that they need some power plant out there because the PG&E grid is simply not reliable enough for the purposes they have. So when opportunity is to build a larger plant, a 50-megawatt plant, if the City has the capability into entering into a JPA and financing the plant with the university.

We've also been looking at opportunities on Port property to do another power plant. Probably the best location we've found right now is just north of Islais Creek right on the bay on Port property. The reason that is good is that we are putting in a duct bank, a conduit under Islais Creek that we could run cable from this site out to the Hunter's Point switchyard, which then would allow electricity to feed into the grid. You can size all kinds of different plants out there. We've chosen the smallest combined cycle plant that you can economically build which is 57 megawatts.

Then we've looked at what we can achieve at other resources by 2005, solar if we push it. I think we can do 10 megawatts of solar by then. One of the new things that are happening is that a lot of people are proposing to build small reciprocating engines in existing-office buildings. The CPUC is putting one in their building as well as the State Office Building on Golden Gate are going to put in these small fairly clean internal combustion engines that run on natural gas. If that market opened up, there are a lot of businesses in San Francisco that would be interested. The issue with these small-scale generators is that they are not as clean in terms of air emissions as the larger plants. They are a lot cleaner than Hunter's Point and Potrero, but not as clean as the state of art large plant.

Load Reduction. Load reduction is the cleanest that we saw what we could do in 2001, where we reduce load by 100 megawatts in San Francisco in the summer months.

When we were out in the community, we reminded people that the air quality impacts is not just how clean or dirty the plant is, but how many hours it runs and how large the plant is. Whereas, the Hunter's Point Plants are relatively dirty, if they run a few hours compared to a brand new large plant you may end up with a similar amount of emissions in the area.

This is the pounds per megawatt hour metric that we've chosen for this graph for the Merant Plant. It is pretty clean when you look at it compared to Hunter's Point. This is what Hunter's Point Potrero Plant looks like now. This is what Potrero would look like after it has the clean air technology, the SCR put on it in 2005 obviously when hydro solar have no emissions in Nox.

To summarize and lay the context for what you are doing with LAFCo, I will just say that my view of the most pressing needs is we need to reduce electric consumption within the next 30 months, particularly during the peak hours. Particularly targeting some of the larger commercial customers in San Francisco where there are some economies that can be achieved. We need to develop some new power plants such as the ones at Mission Bay and Downtown. To be able to do that, the City needs to have more tools than it currently has. We are limited by not being able to issue revenue bonds, and we are limited by not being able under the City Charter to enter into long-term power purchase agreements because in the provision that subjects annual power purchase contracts to an annual appropriation. So, if we can achieve those, we can assure reliability and meet our goal of shutting down Hunter's Point.

Vice-Chairperson McGoldrick asked Mr. Smeloff, could you repeat those last two limitations you talked about? The first one you said was we are limited in our ability to issue revenue bonds?

Mr. Smeloff stated the PUC is limited. The current Charter requires that revenue bonds with certain exceptions have to be approved by the voters, and that is a

pretty time consuming process for each kind of investment that a utility would make. So that's one. Another is this issue of not being able to enter into long-term contracts. The way we did it with Calpine is we got a letter from the City Attorney's Office that said if there wasn't an appropriation by the governing body by the Board of Supervisors that that would constitute default, and that gave some sort of confidence to Calpine. You're going to pay a premium to have to enter into those types of contracts, and you are going to limit the number of parties that are going to want to sell power. To have an effective electric utility, you need to put together a portfolio of resources, some that you own and some that you may buy. You don't want to be in the short-term market for everything as we saw last year. You want to have a mixed portfolio of different types of technologies that you are buying electricity from.

Chairperson Gonzalez asked do other municipalities that you are familiar with have the same restrictions regarding revenue bonds for this kind of acquisition?

Mr. Smeloff stated no other municipal utility that's a City department has that restriction. So you look at Palo Alto, or Alameda, or Santa Clara or any of the other municipal utilities that are part of City government--they don't have that restriction. The limitation on the city of Anaheim (I just called down) has entered into contracts as long as thirty years with power suppliers. I think it is just San Francisco and San Diego (I am told by the City Attorney) that have this limitation on revenue bonds where they have to go to the voters. I think all counties have this requirement to go to the voters for general obligation bonds, but not the case for revenue bonds.

Chairperson Gonzalez asked what could you tell us about a much-publicized piece that was in the Chronicle related to a plan that you are putting forward. Is there anything you can tell us about that?

Mr. Smeloff stated this is the core of the plan. What the Chronicle played up, and it was part of that plan is that we recommended or draft recommended that in order to facilitate these things, San Francisco should take on the responsibility of being "a load serving entity" or a "community aggregator of load". That is we should be the responsible party for serving the businesses and residences of San Francisco. Right now, we are somewhat precluded from doing that by regulations of the California Public Utilities Commission, but there is a bill that Assemblywoman Migden is carrying that would enable San Francisco and other municipalities to be community aggregators. That bill I understand is past the Assembly and is now in the Senate and is scheduled in July for its first Committee. If that passes, then next January we would have to get an ordinance from the Board of Supervisors and then develop an implementation plan. We could take on the responsibility from PG&E of providing the commodity without owning the wires or other pieces of equipment necessary to deliver the electricity to customers. It could get us in the business a lot sooner than for municipalization or condemnation. I have actually talked to PG&E and as they were quoted to see if they were quoted correctly in the Chronicle. They have told me they are not opposed to San Francisco taking on that responsibility.

They would actually share data and assist San Francisco in becoming a load serving entity. Their interest apparently is in maintaining their franchise and business as a distributor of electricity.

Commissioner Fellman asked isn't it the case that PG&E has stated in the bankruptcy proceeding it doesn't really want to be a generator any longer under the regulated utility function?

Mr. Smeloff stated exactly. What they are trying to do is get rid of their generation from their regulated utility and turn it over to their unregulated or federally regulated subsidiary and then be able to sell at market prices. So, they would be in the position then of being able to compete for San Francisco's business against other suppliers.

Chairperson Gonzalez asked and the prohibition from community aggregation has been in place for how long?

Mr. Smeloff stated I think since last July. Commissioner Fellman may know better. I think it's been in place since July or September of last year.

Commissioner Fellman stated in September there was a final vote, and there really never was under the restructuring, a community aggregation process that worked. It was more individual rather than the City.

Mr. Smeloff stated what is special about the Migden legislation is that it allows the City to be the default provider. That is, that it would take on the load and then it would have an opportunity for individual customers to opt out. If they wanted to choose a different supplier, they would have 180 days after the beginning of this to opt out at no cost. The City would have certain obligations to inform everybody of their rights and the opportunity to make a choice. The old way is you had to opt in and that was extraordinarily expensive. The transaction costs in having to go out and market and get individual customers to sign a contract made it prohibitive for cities to get into the business of aggregating customers. That is the big difference with Assemblywoman Migden's bill.

Public Comment

Mr. Charles Kalish asked Mr. Smeloff, I know that you had a response when people asked why you seemed to be in favor of this over going to public ownership of power. If there's a way to have our cake and eat it, that is your concern is that it is going to take us too long to go to public power, we're going to get sued, etc. etc. Is there a way for us to start aggregating interimly and at the same time implement public ownership of power or vote on it this November?

Vice-Chairperson McGoldrick stated that procedurally in terms of questions from the public, you don't have to answer the question. However, I would be interested if you were able to answer the question procedurally.

Mr. Smeloff stated the reason I am focusing on community aggregation is because the immediate problems we need to solve require immediate action. It is my belief that if you try to condemn the system, that does get you into a legal process that could take years with PG&E. There is a provision of state law called rebuttable presumption, which means that your decision to condemn PG&E's property is not final. It is not conclusive. PG&E can rebut it and show that there is not a higher public need being served by the City taking over their property.

Nothing that I am proposing here and focusing on community aggregation would prohibit the City at a later date from trying to take over the distribution system. What I am trying to do is to provide a focus on what needs to be done first. What is the most important energy policy problem in San Francisco and keep the focus on solving that problem. If we focus on solving this problem, we are going to see whether PG&E wants to cooperate in solving the problem or not. There are some real important reasons why PG&E should want to cooperate in shutting down Hunter's Point and assuring reliability. If they fail to do that and help interconnect these small power plants and cooperate on the solar, then you lay a stronger basis for the public need, the public necessity of taking over their distribution system.

Chairperson Gonzalez asked couldn't the opposite be argued though that to the extent that we do community aggregation and some of the other things that you are describing, that we strengthen their ability to respond to the under rebuttable presumption theory?

Mr. Smeloff stated I think you do if PG&E turns out to be cooperative and helps the City in solving these problems, reducing load, and getting new power plants connected. Then the argument that there is a higher public good being served by taking over their distribution system is weakened.

Chairperson Gonzalez stated if it is weakened, then taking this approach does in some ways set you back.

Mr. Smeloff stated if that is your goal. If your goal is taking over the distribution system, this has the potential of weakening the argument that you would make at the time of condemnation. If PG&E is cooperative and helps solve these problems, I think they then could make the argument that there isn't a higher public good being served here by taking over their system.

Chairperson Gonzalez stated correct me if I am wrong. PG&E right now can engage in activity that essentially amounts to taking themselves, even though they are not a government entity in some cases, can't they? Under what circumstances can they do that?

Donald Maynor, Esquire stated PG&E can use the power of condemnation if it needs right of way. That is primarily the only time they use it is for purposes of right of way for transmission lines or if they had to acquire a generation site, they have a limited use of the power of condemnation.

Chairperson Gonzalez asked is there any other non-governmental entity that has that taking authority?

Mr. Maynor stated there are some unusual rules in the California law of condemnation. Private people can or they used to have that right under certain circumstances, private water companies, and even private individuals in certain circumstances. There is a very high burden they need to meet in order to use that.

Commissioner Fellman asked are there any entities outside of those regulated by the California Public Utilities Commission that can exercise imminent domain?

Mr. Maynor stated there was a provision in certain circumstances having to do with easements where an individual could actually go into court. The only other situation I am aware of is in the utility context. So the primary use of condemnation is by public agencies and public utilities. I might add with respect to that rebuttable presumption concern—oftentimes that issue could be addressed at the very beginning of a lawsuit, and it doesn't necessarily have to take years to litigate that issue. Particularly in view of what's happened with respect to energy rates and a company that's been in bankruptcy, this presumption may not be as difficult as one would think.

Chairperson Gonzalez asked because of the reliability question?

Mr. Maynor stated before, there was an absolute presumption that the public need outweighs the current private use. They changed that presumption a few years ago to make that a rebuttable presumption. It is the kind of issue that you would address right at the beginning. You would make a motion before the court. I have condemned a lot of PG&E property. I have never heard them make that argument before. They likely would in this case because it is very important to them. That particular issue in my view is not one that would go on for years and years. I think it would be an issue that would be resolved up front in an initial proceeding. In view of the facts that have taken place in the last couple of years, meeting that presumption shouldn't be that difficult.

Commissioner Fellman asked Mr. Smeloff, you told us that you met with the consultants to coordinate with them. For the record, how do you see LAFCo's work interfacing with the work that you are doing in the Public Utilities Commission?

Mr. Smeloff stated the work that we are doing is putting together a resource plan, a vision for the future and blueprint on some steps that we could take to get there. As

I understand it, your consultants are going to advise you on different organizational structures for a Municipal Utility on some of the risks and benefits of a municipal utility. We have data that we will be glad to share, and we have load data for all of San Francisco. We have information that we have collected from the ISO and elsewhere that would probably be easier for us to simply just give to the consultants rather than have them collect it themselves. We think we can help them out in meeting your goals by meeting with them and providing them with the information that we have.

Commissioner Fellman asked will the resource plan that you are developing contain any recommendations regarding structure also? Is that something you see LAFCo focusing on?

Mr. Smeloff stated I see that as outside of our mandate. We have been instructed specifically by the Board of Supervisors by Resolution that Supervisor Maxwell introduced to look at all practical transmission, load management, conservation, renewable and other ways of shutting down Hunter's Point providing reliability and as an alternative to the Merant proposed power plant.

Mr. Maynor asked to what extent is Mr. Smeloff's plan premised on the enactment of the aggregation legislation, and if it's not adopted to what extent does that impede it?

Mr. Smeloff stated to build new power plants, as I mentioned earlier, the developers and owners of those plants are going to need a long term power purchase agreement. To prudently, from the City's perspective, enter into a long term power purchase agreement, you need to have customers that you are then going to sell that power to. I would not recommend the City to buy power from a power developer and then try to market that in the wholesale market. I think that is too risky an activity for City government. The City really needs to have end users and to have load that is willing to serve so you have a predictable stream of revenue then you can use to service that power purchase agreement or any debt financing that the City has entered into. That's why I think it is crucial to implement this plan to have customers that you are responsible for. The community aggregation gives you most of the customers in San Francisco.

Chairperson Gonzalez thanked Mr. Smeloff for his presentation.

4. Public Hearing: Discussion and Adoption of the proposed SF LAFCo 2002-2003 FISCAL YEAR BUDGET (Government Code Section 56381). Action item.

Gloria L. Young, Executive Officer stated the Commission has received the staff report related to the budget that refers to the Cortese-Knox-Hertzberg Act requirement to adopt an annual budget. You held your first hearing on April 12, 2002. As previously stated, the budget before the Commission is identical to the one that was approved by the Commission last year in the amount of \$458,750. As

you may recall funds for LAFCo were set up as a project fund and currently there is \$364,444 on reserve. As of May 8th this week, the Board of Supervisors Finance Committee released an amount of \$125,000, which was a request from this Commission for legal counsel and for the energy consulting services contract that you have before you today. This will need to go to the full Board for approval on May 13. I should also note that the Finance Committee and the Board of Supervisors were both advised by the City Attorney's Office that after the fiscal year no longer will the Board of Supervisors be able to reserve LAFCo funds. That is in accordance with the new law. The remaining balance that is currently on reserve with the Board of Supervisors, if in fact the Board approves the release of \$125,000, is \$239,806, which will offset the budget if it is adopted by the Board today. The \$458,750 would include the \$239,806, and the difference would be what would be allocated by the Board of Supervisors for the next fiscal year.

I should also note and you had before you and is in this packet as well a detailed list of what the budget entails. I should also note that Commissioner Ammiano spoke at the previous meeting and asked that I reiterate the desire to return to inside counsel for Fiscal Year 2002-2003. I'm supportive of that. I suggest that we continue to use our outside legal counsel as we go through this energy consultant services. The existing contracts with both Don Maynor and Nancy Miller are billable and terminate on June 30, 2002. We do have the availability to do a month to month so if there are in fact funds left, we could also work with them if we needed their outside services. I recommend approval of this item.

Chairperson Gonzalez asked are you saying that Commissioner Ammiano said that to you at an actual LAFCo meeting?

Ms. Young stated yes, Commissioner Ammiano expressed that at the last Commission meeting, which I believe was April 24th. He also indicated to me since he was going to be absent from this meeting today that it be reiterated to the Commission today. We have been very fortunate to have the two outside attorneys that we have used. There will be a cost whether we use inside or outside attorneys so you need to keep that in mind, and that is why there are funds budgeted for legal services.

Chairperson Gonzalez stated I'm sure we all have our own opinions about this item. I would not be inclined to change counsel anytime this year. We could discuss that at a later time.

Commissioner Schmeltzer asked how is that decision made or implemented?

Ms. Young asked which one, the decision to go with outside legal counsel versus inside legal counsel?

Commissioner Schmeltzer stated yes. Is that part of the budget?

Ms. Young stated that was a decision made by the previous members of the San Francisco LAFCo last year to seek outside services. It was as a result of the internal counsel indicating their lack of interest in supporting the LAFCo.

Chairperson Gonzalez stated when the contract is up in June, we'll make a decision whether we will want to renew it, whether we want to go month to month, or whether to go to the City Attorney. To the extent that Ms. Young brought it up related to something Commissioner Ammiano was saying, I don't want it to pass without others knowing that. I think it is going to be a contested issue when the time comes.

Ms. Young stated there is an issue that keeps coming up at our LAFCo meetings with respect to the funding and whether or not internal counsel would be less costly than external counsel. I have in fact provided you with information that shows it would be relatively the same.

Vice-Chairperson McGoldrick asked where is the information?

Ms. Young stated you received that information previously, Commissioner McGoldrick. It was a printout, and I do have it available if you would like to take a look at it. It was a printout of the expenditures of our inside counsel including their use of outside counsel as well. The amount for services was \$153,699 from 2000-2001 if I recall correctly.

Commissioner Fellman asked did that also include some outside counsel?

Ms. Young stated absolutely. That is included in the printout.

Commissioner Fellman asked other outside counsel?

Ms. Young stated not the counsel I contracted with last year, but previous other counsel.

Chairperson Gonzalez stated that is a decision the City Attorney was making without any direct request of the LAFCo. They made their own decision to do that, and the LAFCo was essentially paying for it.

Ms. Young concurred.

Commissioner Fellman stated I would like to see this item discussed. How do we put it on the agenda? I agree with Commissioner Gonzalez that we shouldn't approve a process on counsel while we are approving going forward with the budget.

Ms. Young stated it is two separate issues and as I said before, the current contracts that we have with the City Attorney expire on June 30, 2002. We can

agendaize it for the next meeting. We do have the ability on a month to month to use their services until such time as this Commission decides how it wants to go. We could discuss it now or we could agendaize it for a future meeting.

Vice-Chairperson McGoldrick stated it seems like an item that is correlated to the budget, but also it could be considered extraneous at this point. We could approve the monies and decide who we want to give us the counsel.

Ms. Young concurred.

Vice-Chairperson McGoldrick stated there is no description in the budget that specifies one way or the other?

Ms. Young stated no, it is generic so it allows the Commission to make the decisions it needs to make.

Commissioner Schmeltzer asked then we can agendaize it for the next meeting?

Chairperson Gonzalez stated we're not sure when the next meeting is going to be, but we'll agendaize it before we get to the conclusion of the contract.

Ms. Young stated before June 30.

Vice-Chairperson McGoldrick asked shouldn't we give ourselves a little bit more lead time as well as for our counsel?

Ms. Young stated we will be coming back to you well before June 30 because if the consultants have their first draft report, we can probably agendaize it at that time.

Vice-Chairperson McGoldrick stated you just put a condition on that. I think we definitely need to agendaize this item in June.

Ms. Young stated we will.

Chairperson Gonzalez stated it might be helpful in the interim to focus on what the issue is in terms of the purpose for changing counsel. Is it because we're going to save money? Is it because you think you are going to get better services? Just having a general sense that you would like to go back to your previous attorneys given the nature of that previous decision that led us to seek outside counsel. If we're satisfied with the representation we're getting, and there's not a significant cost difference. As I recall from our previous meeting if anything Ms. Young came forward and said the cost was less since we've been using this counsel. This is something to consider.

Vice-Chairperson McGoldrick stated we'll have to compare whether we are talking about apples or oranges. If we are saying it costs us less did we tap into their

services less, or are we saying the number of hours we billed? Did we use more hours from our previous counsel? I would have to look at the report that you just handed me in some detail. Indeed, if we are comparing time issues, I don't know what we're comparing. We would have time to do that in June.

Chairperson Gonzalez stated keep in mind you are dealing with the City Attorney's Office. Because of the nature of work orders, in many cases they have a captive client, and your ability to bill clients at a particular rate and make certain decisions is such that drives the cost up for some of the departmental clients. One of the things I was always shocked at during the budget process was the extent to which you are budgeting to departments to pay for the work of the City Attorney. It doesn't surprise me at all that the costs would be relatively the same if not lower not to use them.

Commissioner Schmeltzer asked would we be able to have the City Attorney representative who we would be considering be here at that meeting?

Ms. Young stated I will make that request to City Attorney, Dennis Herrera when we find a date that is available for us to meet.

Commissioner Fellman stated I would like to know some of the history. This is obviously a charged item. Is it correct that the City Attorney backed out of representing LAFCo or elected not to represent LAFCo? Or was it LAFCo's decision? I would like to be directed to some of that history so I could read that.

Ms. Young stated you are more than welcome to also visit the web page. The minutes are reflective of that discussion and of what led to that discussion. It is on the web, and all of the minutes are available there on the LAFCo web page. It has a detailed discussion of how we got to that point, and it also includes a discussion of City Attorney's Office here with their representative indicating their desire to no longer serve LAFCo.

Commissioner Fellman stated I would also like to add to the discussion or this agenda item, but not expand it to infinity. I think as a LAFCo we need to look at what we will be doing in the next year that the services will be provided for. I think we had some specific activities this year that Mr. Maynor and Ms. Miller were uniquely qualified to assist us with and advise us on. Going forward, what are our needs going to be, and which entity is best to serve that? If we are going to be working with the City anyway, there seems to be some synergies there with the City Attorney's Office. So, I don't know what the future holds for LAFCo. I would also like to suggest that we look at that as well in the context of the representation question.

Ms. Young stated If you want through the Chair, we can broaden the item that will be on the agenda, not only focus on the use of inside versus outside legal counsel,

but also what the scope of work or work plan is for LAFCo for Fiscal Year 2002-2003.

Chairperson Gonzalez stated I think the point that Ms. Fellman makes is probably the strongest reason why absent some overarching reason, a change in counsel in June wouldn't make sense particularly to the extent that any members of the Board or Commissioners are talking about putting items on the ballot related to the study that we're preparing right now. The thought that we would change counsel after counsel has essentially carried us through a variety of public hearings, etc.--we have worked very closely with these consultants. For that reason, my earlier comment to Ms. Young was that I would not be inclined to change counsel this year. Obviously, depending upon what future issues the LAFCo gets involved in we're still at the other point, which is if it's not more cost effective, then?

I recall the representation by the City Attorney as very politically charged. I know we have a different City Attorney, but he's not going to be coming to our meetings. It's going to be the previous Deputies. It was a very awkward time. The LAFCo put an item on the ballot. The attorneys representing the LAFCo were appearing before the Board of Supervisors as the Board of Supervisors attorneys telling the Board of Supervisors that what the LAFCo was doing wasn't proper. It was a very complicated matter. To the extent that it is an agency that is not the Board of Supervisors, we would want to think about not having the same counsel

Vice-Chairperson McGoldrick stated I think it is also important particularly for our two newer Commissioners to note that the composition of the LAFCo itself was different at the time. There were different perspectives that were being presented, and one could say that a representation that came out of this Commission and not necessarily from each and every Commissioner as individuals, represented a different approach to the use of the legal counsel and the interpretations of what the legal counsel's advice was, as the Deputy City Attorney's who came here presented that advice. There were different kinds of understandings or misunderstandings, agreements and disagreements which occurred with a Commissioner who is no longer serving on this Commission. I think it is important to understand that you have a different perspective from certain individuals and collectively as well.

I would still be open for further discussion, as Commissioner Fellman indicates, in terms of knowing with some specificity what the anticipated work would be. In understanding, as Chairperson Gonzalez indicates, that continuity in terms of the work that has been done by our current outside counsel, I think is paramount. But if we have other descriptions of specific work, it may be necessary to decide one way or the other on those specific items of work to be anticipated over the next year. I would not just be locked into the entire year. I would rather we look at what it is that we anticipate to be the work that is required. From the Deputy City Attorney or Attorneys that advised this Commission in the past, there is a history there. There is some memory there, and there is some expertise there that is worth considering.

I am not saying one way or the other where I am going to go. But, I think all of those factors need to be weighted in terms of deliberating on this issue later on.

Commissioner Fellman stated I just have one point of clarification. Commissioner Ammiano's statement or preference as I heard it was that it seems our funding cycle is not in conjunction with our operations cycle. That the report and what we do with the report is going to go beyond this fiscal year. So what he was proposing is that, as I understand it, is that we continue with current counsel until we finish this project phase where we go through the consultant's report, and get the results of that which will go beyond the fiscal year.

Ms. Young stated that is my understanding. There is a staff person from his office here, Brad Benson, that could speak to Commissioner Ammiano's intent. If in fact the Commission was interested in bringing the legal services back inside this organization, I was concerned equally that at least it occur after we complete the cycle of information that we need with respect to the consultant services. It seems to me that we needed to keep that consistency as we work through those processes. So, that was going to be my caveat.

Commissioner Fellman stated that is critical to keep in mind here.

Vice-Chairperson McGoldrick asked about the law that changed. What law was that? The Board of Supervisors can no longer provide a reserve?

Ms. Young stated last year the Cortese Knox Hertzberg bill went into effect and what it indicated was first of all, the LAFCo has to approve a budget each and every year, and that the year 2001 was the base year budget for LAFCo. It took away any opportunity for the Board or another legislative body to have control over the LAFCo's Commission's budget. When this entity was initiated in 2000, the Board of Supervisors placed a large portion of the funds on reserve, so we have been existing with the existing funds and going back for a release of reserves as we needed it, and did so this week. The \$239,000 that is currently on reserve would be no longer on reserve. That is per the City Attorney's advice to the Board of Supervisors. It was made as a part of the Budget Analyst's Report this week when the Finance Committee heard LAFCo's item on the release of reserves.

Vice-Chairperson McGoldrick asked what do we in accountancy language call the place where the money is held?

Ms. Young stated it is held right now on reserve in a project fund. The Controller's Office is working right now with the Mayor's Budget Office so that when the Board adopts the new Fiscal Year Budget 2002-2003, those funds will be moved from a project fund. It was set up as a project fund because it was felt that it might not last past the last fiscal year, and it has. It was anticipated that it was going to be a short-term process, and that is why it was set up in project funds, and that is why it was able to have reserve funds. Recognizing that this is an ongoing entity, it does

need to have its own budget and not be set up in a project fund that is not available in terms of expenditures. It will be moved from the project fund, and the Controller's Office could speak better to this than I could, but be placed in the regular budget document that the Board and the Mayor will be approving this year.

Vice-Chairperson McGoldrick asked what will we be asking the Board of Supervisors and the Mayor to approve, the \$458,000?

Ms. Young stated the Mayor's Budget Office specifically, the Budget Analyst, Taylor Emerson and my office have been working closely with Deborah Newman from the Budget Analyst's Office. What will be requested this year is new monies is the difference between the \$239,806 which is currently on reserve and the \$458,750 which is our requested budget, which was the baseline budget from last year. So a little over \$210,000.

Vice-Chairperson McGoldrick stated it is about \$220,000 almost. So if we need to go and ask for money again, we'll just ask for money?

Ms. Young stated if you were to expend more than the \$458,000 yes, you would be asking for a supplement.

Mr. Brad Benson, Legislative Aide to Supervisor Ammiano's Office stated I was not present when Commissioner Ammiano made the comment about legal counsel for LAFCo. I would suspect that he would want to discuss a lot of the issues that all of you have raised at a later time.

Vice-Chairperson McGoldrick moved to approve the adoption of the proposed SF LAFCo 2002-2003 Fiscal Year Budget; duly seconded, and unanimously approved. No objection.

Public Comment

No public comment.

5. Report by Commissioner Ammiano regarding the Public Power Authority Measure.

Mr. Benson stated that Commissioner Ammiano regrets that he couldn't be here today to talk to you about this item. This is one of the principal projects that he is going to be working on over the next several weeks in anticipation of the completion of some of the work that LAFCo has contracted for on public power feasibility. I understand from Commissioner Gonzalez that the Commission would appreciate a brief history of the drafting of Proposition F, which was on last November's ballot and possibly a few words about what Supervisor Ammiano might envision going forward coming the November ballot. Is that correct?

Chairperson Gonzalez stated yes.

Mr. Benson stated I am giving you a copy of a revised version of Proposition F that Supervisor Ammiano introduced to the Clerk of the Board of Supervisors shortly after the November election. It is substantially the same as what was on the ballot with a few minor changes. In drafting this measure which was placed on the ballot at the same time as the Municipal Utility District measure that was put on the ballot, Supervisor Ammiano went through a series of drafting meetings with different constituencies. He met with environmental groups, business groups, homeowners, consumer groups, and worked closely with the City Attorney and also got a significant amount of advice from the Public Utilities Commission staff about obstacles that they saw with the current Public Utilities Commission. Through that consultation arrived at a measure that would replace the Public Utilities Commission, which is currently an appointed Commission with an elected Board with seven members elected by districts with a number of powers that are enumerated in measure, the ability to appoint a General Manager, setting forth specific goals and objectives for the agency related to consumer protection and environmental issues.

As you well know, the PUC is the steward for very far reaching properties throughout the state of California all the way up to Hetch Hetchy. There are a broad number of environmental issues involved. We looked at issuance of debt to finance capital projects and to pursue public power. We looked at rate setting and how the PUC sets rates for both water, sewer, and also power if it were to enter into public power. We looked at a variety of options and asked the agency to look at a variety of options for pursuing public power including some that you have heard Mr. Smeloff describe from the PUC. Community aggregation was one of the options. Taking over distribution facilities owned by PG&E was another option that would have been studied. The third option was developing new generation capacity in San Francisco. The final major provisions in the legislation were negotiated at length with representatives from organized labor about how employees from PG&E might become City employees if the agency pursued imminent domain and took over the distribution grid in the City. That's about as brief a summary as I could provide about what's in the measure and the process that he went through. He will probably want to consult with Commissioners and other members.

Chairperson Gonzalez stated I don't remember asking for a brief summary. You're free to take as much time as you want. I thought it might be more helpful to break down some of the specifics rather than overview it.

Mr. Benson stated I would be happy to talk about any of the specific questions you would like to talk about. Let me just continue by saying that there are deadlines for the Board of Supervisors to draft and consider Charter Amendments that are proposed for the November ballot. This measure has already been introduced. The last day to introduce Charter Amendments for voter consideration is May 20th. Then, it has to sit under public review for a 30-day period of time and then Charter Amendments are scheduled in the Rules Committee of the Board of Supervisors

and need to stay there under public review if they are substantive amendments to the measure. Chairperson Gonzalez, the final submittal date, is it in July or early August? I think it is in either later July or early August. So as you can see the time is not a great deal of time. The initial report back in terms of the LAFCo feasibility study that you are pursuing would occur sometime around the end of June at least in terms of draft findings. The Board would need to act fairly quickly on those draft findings to get those recommendations into a new Charter amendment that would be presented to voters. Supervisor Ammiano wants to be inclusive in drafting a measure, bring constituencies who care about this issue together to talk about it because it affects a lot of folks. I know that of particular concern to him will be involving people in the Potrero and Bayview communities who are concerned about some of the aging power plants in their neighborhoods and really getting their advice about what should be in this measure.

Back to the specific components, do you want me to walk through the different sections?

Chairperson Gonzalez stated that would be best.

In the new draft that Supervisor Ammiano introduced in November, Page 3, Section 8B.100 just establishes the agency, the Municipal Water and Power Agency to succeed to the functions of the Public Utilities Commission. That would be effective in January of next year.

Section 8B.101. Agency Goals and Objectives calls for a public hearing process to invite comment on agency goals and objectives. It asks the agency to adopt and then update goals that deal with the provision of water, water pollution control, and electric service to San Francisco residents, businesses and departments at rates that are both affordable and stable for ratepayers. I'm not going to read from the measure, but it includes other goals and objectives that go to health and safety of the public, protecting and managing lands and resources. Under the jurisdiction of this new agency what is currently the PUC, and sets further on aggressive goals in terms of implementing energy conservation and renewable energy programs, storm water overflow programs, odor control in certain neighborhoods that are complaining about odors from sewage treatment facilities in San Francisco, etc.

Section 8B.102. Governance and Duties. As I described before, a seven-member Board of Directors would be elected via district elections that would need to be a process to establish lines for the seven districts. The City recently saw that process occur for the redistricting for the Board of Supervisors. It is a complicated process but something that would need to be undertaken in order to elect seven members by district. The elected Directors would act through a General Manager who would actually manage the rest of the agencies employees. They would be compensated elected directors, and they would be subject to campaign contributions and other ethics laws in the City. The agency would appoint its own general counsel so similar to the discussion that you've been having, decide who would represent the

agency. Some issues that are specific to public power. Right now the City sells some Hetch Hetchy power in some months of the year to Modesto and Turlock Irrigation districts. The agency would have precluded that if there was a need to supply residents or businesses in the service area here in San Francisco, which is allowed under those contracts with some notice to those districts. The agency would be able to enter into joint powers agreements. The agency would be able to issue revenue bonds or other forms of indebtedness provided the Controller certified that the agency had revenue to meet those obligations. Had this measure passed, the City might not be in as much of a debate as it is now about how to finance improvements to the water and sewer enterprises at the PUC. Along with that ability to issue revenue bonds, voters would maintain the ability to trigger referendum so that if they opposed the issuance of a large bond, they could have gathered signatures to put it on the ballot.

Chairperson Gonzalez asked what kind of vote is necessary for this measure to issue the revenue bonds?

Mr. Benson stated a majority vote of the agency directors would have been sufficient. On advice from counsel, the agency directors would have had to recommend the exercise of imminent domain to the Board of Supervisors for the acquisition of property and facilities. Again, on advice of the City Attorney, the Agency Board of Directors would have recommended to the Board of Supervisors the adoption of water, water pollution control, and energy impact development fees or connection fees. Those are powers granted under state law to the Board of Supervisors and can't be transferred to the agency board. The measure also dealt with an issue that is still being debated around what has been a consistent practice to transfer surplus funds from the Hetch Hetchy enterprise and the PUC to the General Fund of the City and County for general City purposes. This would have prohibited any General Fund transfer for a period of five years and then created a threshold where it would only be allowed by a two thirds vote of the Board of Supervisors.

Section 8B.103 starting on Page 12 dealt with budget issues.

Chairperson Gonzalez asked was that specifically where you are thinking about the Hetch Hetchy rebuild for that reason or just general infrastructure?

Mr. Benson stated I think this was something that Supervisor Ammiano heard complaints from constituencies who felt like it was unfair that surplus Hetch Hetchy revenues would be transferred to the General Fund when capital projects for water and sewer needed to be funded and felt like that was inappropriate. There is also the perspective of finance managers at the PUC and maybe people who are rating the bonds for the PUC who say when there is an arbitrary amount of money being taken out of the agency on an annual basis, that it is not as good from a fiscal perspective, and that it would be better that it be a fixed amount or no money coming out of the agency.

Chairperson Gonzalez stated particularly now as the public is becoming aware of a very large bond that is being suggested for the rebuild, it would seem that if this measure clearly earmarked money to that specific project, not just that it obviously could just stay in Hetch Hetchy and would be used for those projects. But if you went so far as to underscore that, I'm sure it would strengthen public support.

Vice-Chairperson McGoldrick asked, the last two fiscal years, the one that we are currently in and last year, there were no monies surpluses transferred to the General Fund from the PUC?

Mr. Benson stated from my understanding is it is unlikely to occur any time in the near future.

Section 8B.103. Budget on Page 12. On advice from PUC Finance Managers, set up a schedule of priorities for how revenues to the PUC or the Municipal Water and Power Agency would be used. This section actually describes how they should set up their ten-year capital and long-range financial plan. A lot of criticism of the PUC has been that it has not engaged in long-range planning. Also called for a five-year business plan and then two-year budget. The goal being that more long range planning, more stabilization of rates would occur. A lot of these sections came when Supervisor Ammiano consulted with current PUC staff and other utility experts on what best practices were for utilities.

Section 8B.104. Rates. On Page 15. Describes a rate setting methodology that is sufficient to meet bond indebtedness by the agency to meet operating costs, long-term capital costs and maintain a prudent reserve, all of which are standard utility practice, adopt rate structures for each utility service designed to induce conservation and deter waste including contemplating possible surcharges to fund implementation of water conservation programs, environmental and public health programs, odor control programs and/or alternative water pollution projects or waste water treatment projects. Also looking at low income rate discounts for cable service, for energy service, it's fairly standard to have life line rates for classes of ratepayers who cannot afford to pay. This enabled the agency to consider those issues and also allowed for if the agency were to enter into public power and consider taking over PG&E, PG&E pays the City franchise fees that are fairly substantial and part of the City's revenue for general City purposes. This provision would have required that the agency set up surcharges sufficient so that the City would not have lost money.

Section 8B.105. Public Power Feasibility and Mandates starting on Page 16 looked at public power feasibility and mandates and gave the agency direction to look at public power and how it could be provided. Looking at generation, looking at community aggregation, looking at taking over distribution facilities.

Section 8B.106. Labor Relations on page 17 was probably one of the most complicated portions of the drafting process. Supervisor Ammiano met at length with effected employee bargaining units who currently represent employees working with the PUC and others who work at PG&E to figure out a process by which people who are employees of a private company might move over and become City employees, which is not an easy thing to figure out. There are a lot of complicated details there. That I think sums up the major portions of the legislation and questions.

Chairperson Gonzalez stated it is not a major item, but with the Department of Elections, with the creating of the new lines, I suspect that requires additional work on their part in terms of being able to segregate out balance for any new districts. I am wondering if there is any other way to do it. I guess there isn't a way to utilize the state assembly lines or something like that.

Mr. Benson stated I think that the rules for establishing districts are pretty standard, the bounds of population, keeping constituencies together, keeping communities and interests together. The number chosen here was seven. I think that in the initial drafting process people felt like that's the number of people that we have on the School Board, that's the number of people we have on the Community College Board, and that's the current number of PUC Commissioners. It made sense in terms of the size of the Utility Board. You'd have to draw new lines. It would create new ballot types, which is I think what Commissioner Gonzalez is referring to and it would increase costs of running elections. The way around that would be to consider a larger Board that ran in the same lines, as the Board of Supervisors for instance.

Chairperson Gonzalez stated I think a lot of what was driving the district lines was the fact that that's how the Municipal Utility District kind of worked with some districts. Although that was complicated and that you got elected citywide.

Mr. Benson stated you had to run citywide, but represent a geographic area.

Chairperson Gonzalez asked any thought on rather than seven districts, just doing it like the Community College Board or School Board? Although there is a lot of talk now about taking the School Board and moving it to District lines.

Mr. Benson stated those would be policy questions that I think would be better for my boss to answer.

Public Comment

Mr. Richard Knee asked if he could address a question to Mr. Benson.

Vice-Chairperson McGoldrick stated I think that it depends on the question.

Chairperson Gonzalez stated I think Mr. Benson could let us know if he can't answer.

Mr. Knee stated I had heard that there was some discussion of switching in the new amendment, the proposal that is to be put before the voters this coming November, to an appointed rather than an elected Commission. I would like to find out if that is the case.

Chairperson Gonzalez stated I think the point that Mr. Benson just brought up was that there are certain things that he would prefer for Commissioner Ammiano to answer. Although there was a lot of discussion about an item for this November, Mr. Benson was primarily going over last year's item and just giving everybody a lay of the land.

No further public comment.

Public Comment Closed.

6. Report on the status of Assemblyman Kelley's bill (AB 2266).

Mr. Maynor stated we were concerned when we saw this bill because it had some really ugly provisions in it. It would essentially preclude any meaningful opportunity to become a municipal utility. So we understand that that bill is no longer active. We will continue to monitor it and if there are any developments there, we will let you know.

Public Comment

No Public Comment.

7. R. W. Beck, Energy Consultant Status Report on the Scope of Work and Timeline for the SF LAFCo Energy Services Study.

Mr. Mike Bell, R. W. Beck, stated I would also like to point out that also in attendance this afternoon are Barry Flynn of Flynn Resource Consultants and Ken Mellor, who is also with R. W. Beck. I would also ask if they would like when there are questions to be addressed by each of their areas, if they would like to step forward. I would like to make a few points before I get into the actual presentation. I would like to start out by saying that we began this process by first meeting with the Task Force members here about a week and a half ago to get some input from the Task Force. We've also had meetings amongst the three consulting firms Beck, Henwood Energy Services, and Flynn Resource Consultants to work on this scope and come up with a plan, a timeline, and clear responsibility assignments so all three of us are in lock step with one another as we proceed. That results in the scope that we will discuss with you this afternoon.

We also took advantage of our time here today with Mr. Smeloff to talk with him about the work that he is doing and about the direction that he is taking. Also, to find out from him what data he has already collected and has available to him so we are not out searching for information that is already readily available. As Mr. Smeloff noted, he has offered to help provide that information to us. I would also like to point out, based on our discussion with Mr. Smeloff that as he outlined today, the issues that he is addressing are largely generation and transmission-related. Because of the severity of the situation looking out to 2004, he is very much focused on what happens between now and then. So it would appear from my perspective, that the work that you are engaged in certainly covers those same areas. But, the focus of your attention is more long-term and also takes into account other components such as distribution and service options that he hasn't spent quite as much time with.

With that, I would like to introduce the scope by saying what we have done is identified major components such as the generation, transmission, distribution, as well as customer service, rates, energy efficiency, renewables, and the like in terms of our scope of our work. What we intend to do then is take that and look at the different options that will be available that being continued service from PG&E, City services, and municipal options, and report back in the final report. With that, let me start to walk through the presentation.

What we would envision the scope to include would be an introduction section that would deal with the energy market and what's happened in the recent past and how that impacts the City in its future decision making. We also would talk about the unique aspects of San Francisco's electric system, some of which you've heard about today from Mr. Smeloff. It is a unique system and is different from many other locales based upon how its been built out and by its geography. The wholesale power generation cost is largely made up of three components. I believe that we should be able to get much of the data we need for this area from Mr. Smeloff.

The first section would be the position report, which would identify the City load requirements, area generation, and status of the wholesale market in the City. Potential cost outcomes would begin to get into energy forecasts and what happens under different scenarios such as spot market prices, continued service as is today or alternatives along the lines of municipal development or options that would be available to the City.

Commissioner Schmeltzer asked will you be considering the potential fixed charges that could be imposed by the DWR contracts through the CPUC in that section?

Mr. Bell stated that will probably come into play not only in this section, but in the distribution section. A lot of these issues are interrelated, but that certainly is a very important component of this study. The results of how that plays out could obviously have a big impact on decision-making. Yes, that would apply not only

here, but in the distribution section of the study. Also, the wholesale power market risk factors. What we would identify there is just what the risks are in the generation component of the market as well as what the opportunities are to mitigate that risk, insulate one-self, and protect one-self from those risks.

The transmission evaluation would also discuss the current environment, where things are at and the activities that are taking place today. We would also look at alternatives to improve reliability as a key component. This again will interact with the generation piece because none of these options stand-alone. They need to be considered in the whole. There also are potentials to avoid future load interruptions depending upon both physical improvements to the transmission system as well as organizational issues that will be around these various alternatives. Transmission pricing is going to be important. There are directions that the Federal Energy Regulatory Commission is taking and the ISO is taking regarding future pricing of transmission resources. Those will be identified and included in the report. As well as local control issues, which obviously come into play when you talk about reliability and the ability to avoid future interruptions of service.

Commissioner Schmeltzer asked could you give us a couple of examples of the types of local control issues that you are thinking of?

Mr. Bell stated I think a good example would be with regard to trying to increase reliability by participating and supporting, as Mr. Smeloff noted, the development of say, Jefferson Martin. Or, taking an active role in both the physical construction of facilities or organizationally, creating a structure that would insulate the City from blackouts. Along the lines of for example, what Los Angeles Department of Water and Power had done in order to free themselves from mandated rolling blackouts and the like--a combination of those items.

With regard to distribution, again we would look at the current environment, how that stands, and where we think it's going to go in the future. Look at a full range of potential retail service options ,and I would envision that being anything from aggregation of services to acquiring wires and facilities. There is a lot in between those options. So, articulate them and identify what they are. I will show you in an upcoming slide on conclusions, pros, cons, risks, costs, etc., which really gets to the costs of pricing issues and again the local control issues associated with involvement in the actual distribution system.

Commissioner Schmeltzer asked are you going to identify what additional studies would be recommended to get when you say that there are potential retail service options like aggregation or acquiring the wires or a range of other things in between. What the pieces would be to get there?

Mr. Bell stated yes. I will come back to that in just a minute. Then identify other considerations that really transcend all of the generation, transmission, and distribution areas. Those are going to be important no matter what option or which

issue is ultimately decided upon. Those include things and items such as conservation, efficiency, renewable resources, rates, pricing, economic development, etc. They will come into play no matter which option is pursued.

Inclusions are where we think you will get the most value from the report. What we would envision is identifying the range of options that are available, summarize the pros and cons of each one. All will have strengths and weaknesses associated with them. Each one will have risks and benefits. We would identify just what those are and how they play out in each of the individual options. One thing that there is still a lot of uncertainty about is legislative and regulatory change. What we would do in the report is identify those key issues that have yet to be resolved, but will obviously have a big impact. The example of exit fees and non by-passable charges is a good example of that. Back to your point Commissioner, identifying the next steps for each of the options. What would need to be done, milestones, identifying the major pieces in order to pursue that option as well as timeline for implementation, should you determine to move forward with any of the options.

Commissioner Schmeltzer asked will you have projected cost estimates?

Mr. Bell stated we could that. I would say those cost ranges at this early stage are going to be pretty broad. Sometimes, it is difficult--you put a number out there and people really grab a hold of it. We can do it, but I would caution at this early stage that it would be a broad range.

Commissioner Schmeltzer asked that may be something that the Task Force could consider when they see drafts?

Mr. Bell stated I think that would be helpful to do that in that process.

Commissioner Fellman asked could you please comment how you see your work interfacing with what Mr. Smeloff is doing? He gave us your prospective and I would like to hear yours.

Mr. Bell stated I think that the perspective here, and this really should come from the LAFCo. But my vision of that is that this is a longer-term perspective that really looks out over a longer period of time in terms of organizationally and structurally what options are there, with particular regard to the distribution side. I see Mr. Smeloff, and for good logical reason, focused on the near time future in terms of generation, transmission, and reliability. Right now, those are real critical issues to the day to day operation of electrical facilities here in the City. I would envision that what we would look at would be, where do you want to be 15 or 20 years from now. What are the choices that could be made today to position the City to be at that position at that point in time. From that standpoint, that would be what would provide you with the best value.

Commissioner Fellman asked do you have a rough estimate of the proportion of the background transmission discussion and this more interesting part? Do you have a sense of how that is going to divide up in your report?

Mr. Bell stated not just yet. I think we need to get into it. From what I have seen from talking with Mr. Smeloff today, a good deal of work and effort has been put forth in the generation and transmission components. Mr. Flynn has actually been working with the City on transmission issues, and I think he is in a good unique position with regard to this report to report on where those are at. We'll work through that in the coming weeks and make certain that we have covered all of those bases.

Commissioner Fellman stated just as a general comment, given that the City is already engaged in a resource planning process, it would be useful to spend less time on the background and more time on what do you do with the resource plan from my perspective.

Mr. Bell stated I think what will be a value to us is the Task Force. As you will see when I get the schedule, what we are trying to do is trying to make sure that we have at least two or three more meetings with the Task Force. I have structured it so that we have a couple of drafts out there also to make sure that the work produce as we proceed is positioned such that it fulfills your ultimate objective.

We prepared a responsibility matrix as much for our own planning purposes as anything else in terms of structure and who is going to what work. What we did was we collectively got together and determined which of the firms has the expertise and resources to fulfill those areas. This chart represents what I would describe as the lead-consulting firm for each of those areas. As I mentioned earlier, most of these are interrelated and if you make a change and an assumption for one, it's going to impact in other areas. I don't want to leave you with the impression that each firm is doing just what's in that block because we are going to need to talk to one another and make sure that as we go forward, that we're all consistent. But for purposes of who is the lead, that is what this chart represents. I would say in the discussions that we've had so far, the interaction between the three firms has been very good. I was a little worried about having to coordinate three different agencies in this process, but I think we've already seen that each of us has unique skills, abilities, and knowledge that will make the final work product stronger for doing it. I know there were some concerns on the Commission about this group being too large, but from what I've seen thus far, it's working pretty well.

The other thing we did we looked at the responsibilities and the work product that we envisioned, and we came up with a budget amongst the three of us that we all could agree to that covers the work product that we envision. We distributed that work and came up with a budget that is within the amount that was discussed at the last meeting. Finally, with regard to the timeline. We would envision having a first draft available by the end of this month. We've positioned three-future Task Force

updates in that process. We may want to add one more if your time permits or if during the course of discussion, we see certain areas that need to be addressed in more detail. I would err on the side of making sure that we are communicating well particularly with the Task Force during this process because we don't have a lot of time if we are going to have the report done by the end of June. As in a project management role, I prefer that we have the ability to do that if necessary.

The second draft then would be available the middle of June. What we envision the final report would be delivered the end of June in order to meet your timetable. With that, if you have any further questions, I would be happy to address them.

Chairperson Gonzalez stated I have a question for Ms. Young related to your thoughts on whether or not you think it would be a good idea to have public meetings or any kind of presentation of the final report on the Energy Services Study.

Ms. Young stated when we first envisioned the schedule of not only the letting of the bids, but also receiving and having the interviews, etc., we looked at an opportunity for a public hearing to allow members of the public to have an opportunity to express their feelings on what the actual results of the study would look like. What we modified the plan to do was to have a public hearing for the review of the first or second draft at a time when we could have public comment before we finalize the plan. What I would suggest for the LAFCo Commission is that we have an evening meeting for when we get that first draft so the public has an opportunity to come and comment. That would give an opportunity for the second draft to include the comments that come from the public hearing on the first draft. Around the 17th of June is when the time schedule says we could schedule an evening meeting to allow public testimony. That's within the information that was provided to the consultants. I think it was discussed when we had our Task Force meeting

Chairperson Gonzalez asked to our counsel, Is there any part of the proposal that you want to comment on?

Mr. Maynor stated I had a chance to look at their outline this morning and last night. We've already talked more about this briefly earlier this afternoon. I think the content of what they're going to have in the report is pretty much what I expected them to have. My preference would be that the form be presented a little bit differently. The way I would suggest, and Ms. Young is going to hand out a rough draft of something I put together this morning that gives you an idea. I am not sure this is necessarily the right way to do it. It will give you a flavor of what I had in mind. I think it works well with Mr. Smeloff's plan as well. I am very pleased that he was here. Whenever he comes, we learn a lot of information from him, and it is very helpful.

When we went to the hearings, we learned that being a municipal utility or any type of utility involves a number of different parts to it. I thought it would be helpful

particularly for a person who doesn't have a lot of technical expertise to use this document and learn from it. One way you might be able to do that is if we had an Executive Summary that sort of outlined the purpose of the study, but then give a little primer and made sure that they understand what some of these terms mean. Then get into the description that is unique to San Francisco that Mr. Smeloff talked about. Then as you go through the various components of being a utility, you actually could include within that:

- What they're currently getting with PG&E or likely to get in the future from PG&E in the state.
- What the City is doing or proposes to do, and that is when you would get into Mr. Smeloff's plan.
- Then also discuss what a municipal utility could do.

For each one of these sections, you would have an easy comparison. You also would have different layers of complexity in this report. My suggestion would be to make sure that the text of it is not more than 50-60 pages, and then have more of the technical appendices attached to it. So people that want to get more in the meat of these things can see it through the appendices or some of the more technical studies. The average person could read through the primary text and come away from reading the report with what the differences are:

- What they get from PG&E?
- What they are going to get with the City?
- What they are going to get with the City if they are going to get their aggregation legislation and have the plan that Mr. Smeloff is suggesting, but also what the possibilities are with the municipal utility?

I think it would be easier for somebody to digest. You could put this altogether in one large analysis describing the whole thing, and maybe that's a better way to do it in the sense that's how utilities operate. You don't do generation in isolation from transmission. It all kind of fits together. However, to read all of that and digest it and then come back down to the conclusions at the end of the report might be a bit much to ask. That is just a suggestion. It may be a bad idea. I am not sure. Sometimes when you get a draft and you lay it all out, you change your mind on these things. One advantage to doing it my suggested way is it will make sure that you cover all of the important issues in comparing the various options. I actually feel stronger about it after hearing Mr. Smeloff's plan because I think it is a way to compare the three options.

Chairperson Gonzalez asked you mentioned it to the three consultants and it sounded like you just had a brief discussion?

Mr. Maynor stated I think they can speak for themselves. I think Mr. Mellor would like me not to get funded after June. We have different approaches. The other part about it that is important is that there be some perspective to this, that it not be a typical LAFCo study with a lot of EIR's, with a lot of technical information. I think this is a little bit different, and you want to get a historical perspective of utility industry where it is today and where it is heading. Otherwise, if you just get a snapshot, I think you are going to miss it. I was pleased to hear R. W. Beck talk about having the longer-range perspective because I think it is very important in this type of analysis.

Chairperson Gonzalez stated I do think Mr. Maynor, in the course of the telephone call that many of us participated in, seeing it in writing, you did articulate this approach. I think I like the benefit of within a particular subject area getting a comparative opportunity, and I think that is attractive.

Mr. Maynor stated we proceeded that way when we went through the public hearing process, and that is why, when I was going through that, I sort of came away with that feeling of addressing each component of the utility business. It doesn't necessarily fit well with the way a utility actually operates because it is more of an integrated sort of proposal. That's the bad part of it. I think you can also include a section in the report that mentions that and talks about why these things are all integrated.

Commissioner Schmeltzer stated I think it is a nice way of trying to draw out that comparison so people can see it. I think Mr. Smeloff's report did something similar in portions of the report that came out last month. I think it would be nice to have all in one place, all of the background information about all of San Francisco's and California's history in electricity.

Mr. Maynor stated I don't mean the whole history, just a little bit.

Commissioner Schmeltzer stated I would like to see references for where some of the material where it's well written could be easily found and that we not spend too much of the short time and money that we have restating what's been said elsewhere. I think identifying where that information is would be sufficient.

Mr. Maynor stated I didn't mean that it should be a scholarly topic. In fact, I suggested that if most of this is in our heads, we could pull it out pretty quickly. I think it is important, particularly today, when there is a question going on at the PUC whether to go back to the old way of regulation. If you simply looked at what's happened the last two years and didn't look at what it looked like ten years ago, I am not sure you would capture the whole picture. I think you need enough of it to be able to get the perspective. I was a history major. Otherwise, you are going to get a snapshot, and that is not necessarily enough. I agree with you, you don't want

pages and pages of history. There is a lot written on these subjects, and you really want a condensed version in a couple of paragraphs. That is what I had in mind.

Chairperson Gonzalez asked to hear from our consultants.

Mr. Bell stated first, I would like to thank Mr. Maynor. He called me this morning and told me that he had some concerns and was gracious enough to meet with us just before this meeting to express those. What I got from our meeting was that from a technical standpoint, we don't have a problem there. We are kind of looking at the same issues. I think where I saw Mr. Maynor's comments as being valuable was with regard to presentation. We are after all consultants and engineers and more focused on the technical side of these issues. What is going to be of value for the Commission is a report that can be used in the public and not necessarily worded as if it were delivered to a utility, which most of our reports are.

What I would suggest is what we could do next is begin to fashion the structure and the presentation style of the report. Before we get you that first draft before the end of the month, what I would like to do is get you an outline and maybe some language associated with it that would get into the style of presentation and how we would piece this together and work with the Task Force to make certain that it addresses the needs that Mr. Maynor has expressed here. I think that would be helpful for us to not get too far down the road in terms of structuring it. It's not along the lines that would be of value.

Commissioner Schmeltzer asked that would be information that you would provide to the Task Force before the next proposed phone meeting?

Mr. Bell stated before the first draft comes out. I think that would probably be the best way to work with it. That way we get to begin to put it in the format perhaps as Mr. Maynor described and make sure that you get a chance to see that before we invest three or four weeks in the effort and find we need to change it around. Again, I don't think there is a fundamental problem here. I think it's more in terms of how the work is presented as opposed to what we're doing.

Commissioner Fellman stated I think it is a question of presentation. This comparative aspect is what we discussed in our Task Force meeting. I thought it worked well to schedule those meetings using a conference call and Ms. Fish and Ms. Young to just send out e-mails, and we pick out the times that will work. It was very focussed. We set an hour or an hour and a half, a limited time with an agenda. It would be helpful to get information in advance to have a chance to look at it so we could give you reactions rather than going through it. I feel we are always one step behind in the process. What Mr. Maynor gave us today reflects what we talked about. I think if you two talk beforehand and what kind of format you would like us to look at, we can look at it ahead of time and give you our feedback in real time.

Mr. Bell stated certainly. We recognize your time is valuable too. I don't want to have so many phone calls and meetings that it intrudes upon what your other schedules have. From our standpoint, it is helpful to get that regular feedback and make sure that we're not wasting resources or going down a path that we ultimately don't want to be on.

Commissioner Fellman stated I think it's always tough when you do reports like this because if you decide to parcel it out under topics, then you don't necessarily have the comparative analysis. If you decide to parcel it out under the comparative analysis, you are duplicating some of the topics. That is going to be a juggling act. That is why we're paying you to figure out. I think from my perspective, even if we talk about it really does help to have something in writing to reach to. We don't want you to spend all of the time preparing for conference calls, but I think if you give us a product that will be used as your Table of Contents, that will be really useful and some examples of charts. We also have Ms. Miller's proposal. Did you want to separate those out? We are considering them for one report now.

Public Comment

Mr. Kalish stated I would like to second what Mr. Maynor just recommended. Actually, take it a step further to let R. W. Beck know now that this type of Executive Summary, if you will, is something that we would expect them to create for the purpose of bringing this to the public and not just for public comment or a public hearing, but rather to reach out to the public in a complete and thorough outreach program presented by R. W. Beck to organizations varying from the Board of Supervisors, the Board of Supervisors staff, other elected officials, other appointed officials, other environmental community, just any kind of organization that might in any way be interested in this throughout the City to really inform them. I feel that there is a responsibility of the LAFCo to the public, and this is the best way that it can realize that responsibility. The reason for having R. W. Beck do the presentations is that they have the credibility and the independent view that they're not trying to push one agenda over another, so they will be above suspicion, so the chips fall where they may as far as the study is concerned, and get all of their findings out to the public. I would like to see them be the ones that do it.

Nancy Miller, Esquire stated on the Scope of Services that you have from me has to do with complimenting the services that your consultants will be provided. What I intend is to briefly summarize for you different types of governance structures in dealing with the issue of providing electric services. Depending on the recommendations, pros and cons that the consultants give you, there will be a section of specific ways that you could in San Francisco implement those depending on your Commission's decision. Those would include obviously amendments to the Charter designating additional duties to the SFPUC or perhaps similar actions similar to Measure F and then revenue type actions. I would also spend a little time on the Municipal Utility District and then the idea of City to spot municipalization issues that we have discussed in the past. This is all dependent

upon where your consultant goes in terms of the issues that they spot as pros and cons depending on the different types of governance.

Commissioner Schmeltzer stated I think that sounds good.

No further public comment.

Public Comment Closed.

8. Future Agenda Items

Chairperson Gonzalez asked Ms. Young, that last item was not an action item, was it? Or was it informational in terms of how we are proceeding?

Ms. Miller stated we are assuming that we are proceeding. Unless there are some indication that you want things to go different than how we presented them to you, then we will be proceeding as we have stated. I just want to make one thing clear. In that first draft, we will be asking the consultant to also have recommendations so in the event you want to take action in early June, you will have that opportunity.

Chairperson Gonzalez stated unless a Commissioner states otherwise, we were in support of the approach that Mr. Maynor was articulating if there is any doubt.

Ms. Young stated what I would suggest, and I just had a brief conversation with Mike Bell, is that we could have the Task Force process occur before we get our first draft and to look over the scope. By the 14th, we could look at perhaps an evening meeting for public hearing or the 21st, one of the two. That would be in June. We also wanted to discuss the attorneys and that process. We could do that June 7th and perhaps have the hearing on the 21st.

Chairperson Gonzalez stated so on June 7th if we could also re-calendar the item on the report by Commissioner Ammiano so he can address us and take any questions related to the presentation Mr. Benson made.

Vice-Chairperson McGoldrick stated I think Friday evenings are unusual for public meetings. The 14th of June and the 21st of June are both Fridays. Maybe some other weekday might be preferable.

Ms. Young stated what we could look at is the week of the 16th and see how that works with your schedule in terms of your Committee meetings. Some of you will have longer days because that will be when the final budgets are before you at the Budget Committee. We will look at the week of the 16th and see where there is better day for public comment. On the 7th, as I hear Chairperson Gonzalez, we will re-agendaize a presentation of Commissioner Ammiano. We will have the discussion of the inside versus outside legal counsel, and the third piece of that as I

understood from Commissioners McGoldrick and Fellman was to talk about the future LAFCo work plan.

Chairperson Gonzalez asked could we also add something related to what the public speaker noted, the possible presentation of this study to the public, any advantages, disadvantages and what we may want to consider?

Ms. Young stated and that would be on the 7th prior to our hearing the week of the 16th.

Vice-Chairperson McGoldrick asked what you are referring to is with the Budget Committee at the Board of Supervisors, there will be very long hearings, sometimes 12, 14 hours for three days during the week of the 9th, and three days during the week of the 16th scheduled for the Tuesday, Wednesday, and Thursday?

Ms. Young stated that is my understanding. The first round is the week of the 9th when you will have all of the departments coming before you and the second week is the final adoption.

Vice-Chairperson McGoldrick stated and on the Monday the full Board of Supervisors has hearings that could go until 5:00, but they could go until 10:00 p.m. as well.

Ms. Young stated we will look at what works because if the Chamber is booked, then we will have to look at another venue.

Commissioner Schmeltzer stated in light of that, does that mean that Monday is the only other day that there isn't the potential for budget hearings to go into the evening?

Ms. Young stated what I suggested is that we could possibly look at another venue. We would have to make sure that the Commissioners that are present here are not on the Budget Committee. Commissioners McGoldrick, Ammiano and Peskin are on the Budget Committee.

Vice-Chairperson McGoldrick stated which brings us back to those dates that you were recommending. If we were not able to do evening hearings, what about later on these afternoons such as late Friday afternoons to start at 3:00 or 4:00 p.m.?

Ms. Young stated when we raised this issue on the 7th, we may want to just think about those kinds of issues. My concern is that if we wait until the 7th to start talking about who we want to be there, how we get the report out, we won't have a lot of time for advertising and making it known to the public. We need to keep that in mind when scheduling that meeting if it is going to be the week of the 17th on the first draft.

Commissioner Schmeltzer asked I think what you said is that the Budget Committee meets Tuesday, Wednesday, and Thursday?

Ms. Young stated yes, it is my understanding that they meet Tuesday, Wednesday and Thursday starting the week of the 9th and the follow-up is the week of the 16th.

Commissioner Schmeltzer asked so we don't have that issue on Monday?

Ms. Young stated we have Board meetings.

Commissioner Schmeltzer asked on Monday night?

Ms. Young stated there is no way of gaging whether it goes into the evening. It starts at 2:00 p.m. Generally it's over at 6:00 p.m. There are some times public hearings and items such as closed session that may take you into the evening.

Commissioner Fellman stated what's the timing on the final deliverable? What have we told the consultants?

Ms. Young stated I believe that we wanted the final deliverable before the first of July. So if you're pushing it back, the issue becomes the second draft and the final.

Commissioner Fellman asked are Saturday public hearings unprecedented?

Vice-Chairperson McGoldrick stated I think there was at least one Saturday hearing for the budget last year. The Board of Supervisors had a Saturday meeting for the budget. It's unusual, but it is certainly a possibility.

Chairperson Gonzalez stated if I recall, the Board of Supervisors meetings during the budget time were relatively quick matters. They seemed to be relatively short meetings. So if we scheduled a LAFCo meeting on Monday evening, we might be able to accommodate it if we were thinking about 6:00 on the 17th because the Board meetings start at 2:00 p.m.

Ms. Young stated that's a possibility.

Vice-Chairperson McGoldrick stated or let's say 7:00 p.m. to allow a little time.

Ms. Young stated if we did that, then we would have enough time for this second draft and to notify people.

Commissioner Fellman stated I want to feel that the public input is incorporated, not just an afterthought.

Ms. Young stated, then we are looking at Monday, the 17h at 7:00 or 6:00 p.m.

Chairperson Gonzalez stated I would be interested in the possibility of having a discussion at the next meeting related to some of the current governing structure at the PUC to the extent that we've heard a little bit about what Prop F was and some of the duties in some general sense. Perhaps to have either Mr. Smeloff or perhaps the PUC could be invited to speak to us to explain its management structure right now.

Ms. Young asked do you see Mr. Smeloff returning on the 7th or is there someone else in mind that you have?

Chairperson Gonzalez stated if he is available and willing to do it. I think we've kind of put this idea of where there was a little bit of discussion on how Measure F related to elected by district type concerns and I think it might be helpful to know what the PUC looks like right now, how it is put together, and that sort of thing. It might not be a bad thing to get some preliminary discussion going on about it. I think one of the natural advantages for instance about district elections is that you assure that there is geographic representation on a body. On the other hand, sometimes the theory is that if you appoint directors, you can be assured that they are going to be exceptionally well qualified as opposed to running elections. I think it would be interesting to get some presentation.

Mr. Smeloff stated I will extend to the General Manager, Pat Martel, and if she would like me to come on her behalf I would be glad to do that, but it should go to the General Manager.

9. Public Comment on Items not on the Agenda

No Public Comment

10. Adjournment

The meeting adjourned at 5:08 p.m.

**San Francisco
Local Agency
Formation Commission**

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DOCUMENTS DEPT.

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AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

**Special Meeting
Friday, June 7, 2002, 10:00 a.m.
City Hall, Room 263**

Chair: Commissioner Gonzalez; Vice Chair: Commissioner McGoldrick

Members: Commissioners Ammiano, Hall, and Schmeltzer

Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call
2. Approval of the Full Minutes of the Public Hearings of February 22, 2002 and March 22, 2002 and Commission Meetings of April 19, 2002 and May 10, 2002. Action Item.
3. Discussion by Ed Smealoff, Assistant General Manager for Power Policy, Planning and Resource Development, San Francisco Public Utilities Commission on the San Francisco Public Utilities Commission's energy policies.
4. Discussion and Action regarding Outside Legal Counsel versus City Attorney's Office support to SF LAFCo.
5. Discussion and Action regarding Public Outreach for the Energy Consultant Study and Possible Community Meetings.
6. Report by Commissioner Ammiano regarding the public power authority measure. (Continued from the May 10, 2002 Meeting.)

7. Discussion regarding SF LAFCo's Future Work Plan.
8. Discussion on Senate Local Government Committee; Cortese-Knox-Hertzberg Local Government Reorganization Act, Implementation Survey, May 2002.
9. Future Agenda Items.
10. Public Comment on Items not on the Agenda.
11. Adjournment.

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee Clerk of LAFCo, San Francisco Board of Supervisors, 1, Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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MINUTES

Special Meeting
Friday, June 7, 2002, 10:00 a.m.
City Hall, Room 263

Chairperson: Commissioner Gonzalez; Vice Chairperson: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chairperson Gonzalez at 10:07 a.m.

Members Present: Chairperson Gonzalez, Vice-Chairperson McGoldrick;
Commissioners Ammiano, Hall, Schmeltzer and Fellman.

Members Absent: None

2. Approval of the Full Minutes of the Public Hearings of February 22 and March 22, 2002 and Commission Meetings of April 19 and May 10, 2002 (Action Item).

No Public Comment.

Commissioner Ammiano moved to approve the minutes. Minutes were duly seconded. No objection. Minutes unanimously approved.

3. Discussion by Ed Smeloff, Assistant General Manager for Power Policy, Planning and Resource Development, San Francisco Public Utilities Commission on the San Francisco Public Utilities Commission's energy policies.

Mr. Smeloff stated, my understanding of the reason you invited me here was to discuss generally the issue of governance at the Public Utilities Commission. It is my intent to communicate the administration's position related to governance and answer any questions you have about energy policy issues. I brought and handed out to you the most recent survey that has been conducted by the American Public Power Association related to governance of public power agencies through the United States. I will briefly summarize the key elements that I thought were relevant to your considerations and then you can review the fuller document.

This was a survey of 816 public power agencies. It looked at a number of issues including how the governing body was selected. Twelve percent of the governing bodies are elected directly by the voters; 29 percent are appointed Commissions and then in 59 percent of the cases, the City Council is the governing body for the municipal utility.

Vice-Chairperson McGoldrick asked, it's City Councils, it's never Boards of Supervisors for counties that you know of?

Mr. Smeloff stated there are some exceptions where it is a County, but in almost every case it is a city government that operates the municipal utility. So they have categorized it as City Councils, but I assume when they survey places like San Francisco, Board of Supervisors means City Council.

Vice-Chairperson McGoldrick stated we're the only entity in the state that is both a City and County.

Commissioner Ammiano stated there is another one.

Mr. Smeloff stated this is a nationwide survey, so in 59 percent of the cases it was the City Council or the Board of Supervisors that directly acts as the governing body for the electric utility. Generally, elected boards tend to be for special districts--for municipal utility districts, public utility districts, public power districts, and irrigation districts. If you look nationwide, the elected boards tend to be more frequently in the Pacific Northwest where you have a lot of public utility districts that get their power from Bonneville and in California, where also a number of the districts got their power from the Western Area Power Administration or other hydro-electric projects that were developed as part of the historical development of the west. Generally, the larger the Public Power Agency, the more likely it is that it will be an appointed Commission. Smaller cities tend to have the governance occur directly by the City Council. When you look at public power agencies with more than 50,000 customers, 24 percent of them are elected, 39 percent appointed, and 37 percent governed directly by the City Council.

The appointed Boards—there are different ways of making the appointments. Fifty-five percent of appointed utility boards are appointed directly by the Mayor of the City. Of those appointed by the Mayor, 91 percent of those are subject to approval by the City Council so the City Council has confirmation approval. Ten percent of the bodies are appointed jointly by the City Council and the Mayor and then in 31 percent, they are appointed just by the City Council. That does not add up to 100. There are some other peculiar things like the Long Island Power Authority, where the governor appoints some members. You generally see with the larger agencies appointment by the Mayor, confirmation by the City Council.

The report goes into a number of issues that may or may not be of interest related to the terms of the governing body, any term limits, compensation of the governing body members, and I will leave that for you to read through. It also analyzes eight specific powers and authorities, which public power agencies often have for themselves, often operationalize. This analyzes how those authorities are divided between appointed Boards and City Councils when you have an appointed Board. Let me say what those eight authorities are. I think you are already aware of them and are addressing them in various discussions that I have heard about what should go into a Charter amendment. Eight key authorities are (1) setting electric rates; (2) approving the utility budget; (3) setting salaries of key utility officials; (4) issuing long-term utility bonds; (5) making any financial investments related to reserve funds that the utility holds; (6) approving purchase power contracts; (7) exercising the right of imminent domain; and (8) hiring and firing of key utility personnel. You can see in here how those duties, those powers and authorities are divided between appointed Commissions and elected City Councils.

Let me now articulate for you what the administration's position is related to governance. The administration, both the Mayor and the San Francisco Public Utilities Commission's view is that we need to maintain the existing governance structure for continuity and achieving key policy goals that have been recently set forth. The Mayor has hired a new General Manager in conjunction with the Public Utilities Commission. He has also hired an Assistant General Manager for Power Policy—of course that's me. We have over the past eight months to a year (I have been here for a year) have attempted to set forth some new policy direction for the Public Utilities Commission. The Commission, as you are aware, recently adopted a long-range capital improvement program that includes a major commitment of resources to rebuild the Hetch-Hetchy water and power system, the regional water system. We are underway in recruiting key staff to implement the capital program including a new Assistant General Manager for infrastructure development. We have discussions underway with suburban water users and key legislators about co-funding and co-financing some of the large projects. We've talked to the credit-rating agencies about our plans. In my area, we are developing a long-term business plan for the Hetch-Hetchy water and power agency so that agency can get a credit-rating. Then we can proceed with developing new clean sources of generation including solar, wind, and other sources needed to shut down the Hunter's Point power plant locally.

The administration believes that the current governance structure provides for transparency and accountability. We are subject, like all City agencies, to the Sunshine Act and the public has a right to all of the documents that we produce with certain limitations. All of our meetings are open to the public and there are opportunities for the public to comment and testify on key policy issues. I think we have shown the new leadership at the Commission, as Pat Martel and myself, a willingness to get out into the community and discuss the plans of the Public Utilities Commission. Ms. Martel has done an extensive community outreach around the capital-improvement program, and I have worked with the Department of the Environment on putting together an Electricity Resource Plan. We've met with numerous neighborhood and community groups in doing that.

I think the City needs to be aware that if we make a change in the governance at this time, that we may or may not be putting in jeopardy some of these plans. A new governing body will take some time to come together and set policies. A new governing body may or may not want to select a new General Manager, may or may not have a different attitude to the Capital Improvement Plan. That uncertainty, if we move at this point in time to changing the governing structure, will raise issues related to how the financial community looks at our plans, how other state legislators look at our plans. So the administration is very concerned that we be careful in changing direction at this time. It's the Mayor's belief that he has begun to set a course, one that is committed to public power, one that is committed to improving the infrastructure. We do believe there is a need for revision and reform at the PUC, changes in the authorities that are given, but that the governing structure is adequate and should not be changed. I would be glad to answer any questions.

Vice-Chairperson McGoldrick asked, what is it exactly that the Mayor has indicated as support for public power?

Mr. Smeloff stated, the Mayor has supported AB 117, which is authored by Assemblywoman Carol Migden. I met yesterday with her staff and key members at the CPUC and the Department of Water Resources. That bill is moving forward. That bill would give the Public Utilities Commission and the City the authority to become the load-serving entity, that is, get in the business of providing electricity to every business and residence in San Francisco. We would become the default-provider. Businesses and residences could opt out and go back to PG&E, could choose a third party to provide electricity, but the City would take over the major responsibility for procuring the commodity, for planning for the future, for setting electric rates, for managing energy efficiency and load-management programs. From the Mayor's and my point of view, these are the key first steps to a full-fledged public power agency and a major change that would allow us to accomplish the goals of shutting down Hunter's Point, cleaning up the power plants at Potrero, and getting cleaner and renewable resources into the City.

Vice-Chairperson McGoldrick asked, does this bill include the generation, transmission, and distribution control for the City?

Mr. Smeloff stated, this bill allows, in combination with Charter amendments that I understand are under consideration, for ownership of generation, for ownership of new transmission, new distribution, for ownership of the technologies for load management and energy conservation. The Migden bill is silent on the issue of taking over the electric distribution system that is owned by PG&E. In fact, it provides another way of getting into the power business without having to go through the complex challenge of taking over the distribution system, which will involve undoubtedly very complex litigation.

Vice-Chairperson McGoldrick asked, could you explain that in a little bit more detail?

Mr. Smeloff stated, the Migden bill would allow the City of San Francisco and other municipalities to get in the business of providing electricity, providing it over the existing utility wires. In our case, over PG&E's wires. We could own power plants, we could own other technologies that are essential for energy storage and load management. We could enter into long-term power contracts. We would become the body responsible for procuring the electricity commodity and for planning for the future, which are the key challenges that San Francisco faces is getting enough new supply that we have both reliability and clean sources of energy.

Commissioner Hall asked, how does this Migden bill differ from what we are allowed to do right now under the City Charter?

Mr. Smeloff stated, the key difference of the Migden bill and current state law is that it changes from what we call an opt-in aggregation to an opt-out. Right now, if the City wants to sell electricity to new customers, we have to sign up one by one every new customer. It is a complicated process. It would be time-consuming and expensive. The Migden bill allows by a vote of the Board of Supervisors if you pass an ordinance, and then we submit an implementation plan to the CPUC, we can become the default provider for all San Francisco's businesses and residents, and then they have the opportunity to opt out. If they don't want the City to be their supplier of electricity, they can go back to PG&E, or they can select a third party. That's the big difference—it's a very important difference that makes it less costly and easier to implement public power here.

Vice-Chairperson McGoldrick asked, does that mean what we are doing is entering into a competitive relationship with the other provider, say PG&E?

Mr. Smeloff stated, yes it would, because people would have choice. They would not be obligated. They would not be locked into taking electricity for the City. The City would be protected—there would be both exit and entry fees charged. After a certain period of time if customers decided to opt out, the City would be able to assess those customers any fees that it has incurred on procuring supply on their behalf. The City

would be protected, but no customer is locked into taking electricity from the City or any other supplier.

Vice-Chairperson McGoldrick asked, does that mean that we would be competing with the entire PG&E corporation or network as a City?

Mr. Smeloff stated, remember PG&E has gotten out of the commodity business. They have sold all of their fossil power plants with the exception of Hunter's Point. They want to spin off their hydro and nuclear plants. That is a whole separate issue. We are proposed to doing that. They are interested in being a wires and pipes company and having other parties own generation and be responsible for selling the commodity. San Francisco is such a peculiar location geographically. We will never have effective competition among generators being at the top of the peninsula. In my judgement, it was a huge mistake to have sold off the Potrero Plant to Merant to give them the kind of monopoly power without competition in San Francisco. The only way to protect our interest in the future is to have the City take responsibility for procurement of the electric commodity.

Chairperson Gonzalez stated, I want to ask you a couple of questions related to the survey. I want to thank you for putting it together and for bringing it forward. The thing that I would be interested in knowing is whether or not you think there is some way of trying to break down this information with power authorities or whatever we want to call them that have essentially what we could identify as best practices. So, rather than looking at all of them put together, is there some way that we can say, here are five or ten that work exceptionally well, and this is what they do?

Mr. Smeloff stated, I think I can get for you in a week or so a list of the largest public power agencies in the United States and how they are governed. It is a little bit more subjective for me or someone else to say, these bodies have the best practices. You could look at what their rates are, but that will vary regionally. You could look at what their portfolio of renewables is, but I could at least give you a list of the largest agencies, and you could see how those agencies are going.

Chairperson Gonzalez stated, I don't think just looking at the largest ones would quite get to where I am trying to take you. I understand that to a large extent that it would be a subjective determination, but you might be able to maybe give it some thought. There is some possibility that certainly within the industry, there are certain models for how to do things.

Mr. Smeloff stated, I can discuss this with the both the American Public Power Association and the California Municipal Utilities Association and see if I can pull something together for you. Your next meeting is on the 17th?

Chairperson Gonzelez stated, that is right.

Mr. Smeloff stated, I will pull something together.

Commissioner Fellman stated, I was actually thinking it might be useful to have Jerry Jordan or somebody from the California Municipal Utilities Association come and address us on this question. I was going to suggest it. I think, Mr. Smeloff, you are familiar with it, but they can give us a direct overview. They work with this all of the time, and we could ask them questions. They could say, down south, this is what works because they are familiar with the whole statewide operation.

Mr. Smeloff stated I think with enough notice, you could get somebody to come from Washington from the American Public Power Association as well to talk about nationally how public power agencies are governed.

Chairperson Gonzalez stated, I think your survey captures that in large part. I think to my mind you have successful models that have different governing structures, but the extent that we can flush that out. It certainly would be helpful to hear from anyone who could speak on the governance structure, but I am satisfied with your presentation frankly on the averages. I am just wondering if there are some way of breaking these figures down and saying, does the governing structure change when you separate out best practices or the agencies that are the most successful? Is there some way of identifying that, and that would obviously be of use.

Mr. Smeloff stated, I have written a book on electric utilities, called Reinventing Electric Utilities Competition Citizen Action and Clean Energy in 1997. I interviewed a lot of community groups throughout the country in that process. One of my observations is that cultural differences in different parts of the country really affect the practices of electric utilities. You will find a lot stronger commitment to renewable energy, to openness and conservation in the Pacific Northwest. You will see a very different type of governance in the Tennessee Valley and in the south where you have a number of other public agencies that are associated with development of public power in that part of the country. You will see different things in the East Coast where you have a different City Council type government. So, it may be hard to generalize best practices across the country.

Chairperson Gonzalez asked, is there a way to do the reverse, to identify worst practices or a utility that has disappeared as a result of their governing structure?

Mr. Smeloff stated, let me think about that.

Vice-Chairperson McGoldrick asked, Mr. Smeloff, what do you believe would be the advantages of following the provisions in the Migden legislation as proposed to municipalization of the existing utility in San Francisco?

Mr. Smeloff stated, I think the Migden legislation allows us to put the city's most pressing problems first, that is, getting new sources of generation in San Francisco, developing renewable energy both in and outside the City, and developing a source of revenues for the City by having a relationship with end users, with businesses and

residents. It avoids the first priority being a litigation with PG&E over whether or not we have the right to take over their electric system and then secondly, what is the value of their system? My point of view, ownership of the grid is not the primary problem that we are facing. The primary problem is that we have very old and unreliable power plants in the City. Second part of the problem is that we have a vacuum of leadership and structure in the state. It's not clear long term who is responsible for planning for electricity and procuring supply. Combine that with the peculiar nature of San Francisco not in my mind ever going to have a competitive market. We are at a real disadvantage of just letting things go forward without any clear policy direction on how we are going to get new sources of generation. For that reason, the Migden bill offers us the clearest pathway to solving our problems in that full-scale municipalization is likely to be a stalemate situation for a number of years.

Commissioner Fellman stated, when PG&E were here, they indicated that they were supporting the Migden bill. Do you know if that is still the case?

Mr. Smeloff stated, they were in a meeting with me yesterday with Migden's staff along with Southern California Edison and Sempra, and all of them were supporting the legislation. Key issue on this legislation is some clarity on the methodology for determining what the exit fees are to support so that the Department of Water Resources and the State of California don't lose revenues as part of the process of implementing community aggregation.

Commissioner Fellman stated, an issue was raised with respect to energy efficiency program financing. Did that come up in the discussions yesterday?

Mr. Smeloff stated, there is language in Migden's bill, a little convoluted, but after talking to her staff and talking to TURN, the way that language is structured is that if we were to become a community aggregator, we would have control over specific programs that have already been designed by PG&E and approved by the Commission. We could target them in specific neighborhoods to specific customers, but we would not have the discretion to just take those public goods dollars and spend them in any way that we saw fit. There is also supervision in her bill that would allow us, if we thought we had better ideas about energy efficiency programs, to apply to the CPUC for a portion of the funds that have been set aside for innovative programs.

Commissioner Fellman asked, would it be possible for you to just inform the LAFCo regarding the status of the legislation?

Mr. Smeloff stated, the Migden bill is up before the Senate Utilities Commission next Tuesday. I met with Senator Spier's staff yesterday and they are supporting it. I think there is a good likelihood that we get it out of Senate Utilities and then go over to the Finance Committee in the State Senate.

Vice-Chairperson McGoldrick asked, as regards to the approval of an implementation plan by the CPUC if the City were to move in the direction of the Migden legislation.

Have you seen a history of approval of an implementation plan by the CPUC that has some sort of a picture that you could draw?

Mr. Smeloff stated, we crafted language yesterday. It was very careful so that the CPUC has no approval authority over the implementation plan. The only thing that that CPUC has authority is to establish exit fees related to the DWR contracts, and that any city that wants to do this can't go forward with their implementation plan until their exit fees are established. The CPUC is authorized to provide technical assistance for those counties that may have less sophistication than San Francisco. They may need to get some technical assistance, and the Migden legislation allows the CPUC to provide that.

Chairperson Gonzalez asked, is there any member of the public that would like to be heard on this item?

No public comment.

Public Comment Closed

4. Discussion and Action regarding Outside Legal Counsel versus City Attorney's Office support to SF LAFCo.

Gloria L. Young, Executive Officer stated, as you are aware there has been an ongoing discussion about legal counsel. In your packet is a letter from City Attorney Dennis Herrera, and I believe both Ms. Miller and Mr. Maynor can speak to their continuing role and also Commissioner Ammiano who has indicated his desire to return to inside counsel. I am here and available for questions.

Chairperson Gonzalez stated, I have stated my thoughts on this previously. I don't know if all of the members were here. Absent a compelling reason to change counsel, I wouldn't be inclined to want to do that until the calendar year was over. I think we have some projects underway. I think there is commonly this idea that there is a savings to the Commission to having the City Attorney do the work, and I don't think that was true given past history. I also think that in the City Attorney's letter relating to conflicts, that frankly, it simply underscores the reality that there are times when you are going to want a different counsel than what the Board of Supervisors has for this kind of Commission.

Commissioner Schmeltzer stated, I tend to disagree. I think that there will be savings. I think that there was an enormous amount of start-up costs involved in the initial use of the City Attorney's Office that won't need to be repeated, and that there will be savings realized because there won't be those types of large start-up costs. In addition, I think there is some benefit to be had from getting the coordination between the Energy Plan representation and the LAFCo representation and making sure that the legal strategy and the legal advice is in concert. This is part of what the City is doing as a whole. I

don't see a conflict there. I think the City Attorney's Office is able to identify if there would be one and advise us of that at that point.

Chairperson Gonzalez stated, just so you know, I was an alternate at the time and LAFCo had some unusual interactions. I think we spoke about this previously in regards to whether or not there was a conflict. The City Attorney took the position that there wasn't a conflict. While I know we had a different City Attorney, I believe the same Deputies that were advising us at that time would come back in and probably in all likelihood be the attorneys advising us in the event we had the City Attorney. On to the question of costs, Ms. Young, do you have any opinions about the point Commissioner Schmeltzer raises that the reason there may be a cost disparity is that there were start-up costs? If you could also mention the pre-existing relationship the City Attorney had with outside counsel as well?

Ms. Young stated, I believe the outside counsel was hired by the then City Attorney. I concur with Commissioner Schmeltzer's remarks about the fact that there was a need for start-up information, especially with relationship to the Municipal Utility District that was being placed on the ballot at the time. We weren't in direct contact in terms of how and when the outside counsel was hired. They were hired on a number of occasions. When we went through the billing after we had received the first and only bill from the City Attorney's Office, we did go through the bill and we extracted those costs from the outside counsel that was used more with respect to PUC as opposed to LAFCo. There was a substantial amount of money that was paid to the outside counsel. I think that their costs were similar if not higher than our existing counsel. I know that they worked on a number of occasions. The inside counsel met with a variety of the supervisors with respect to the ongoing issues that were being placed on the ballot.

With respect to the existing legal counsel, we have used them very differently. As you know, we have two legal counsels. One we use mainly to advise us on LAFCo related issues and the other for energy. Generally, they are not both working on the same subjects at the same time, and that's been how we constructed it to keep the costs within reason. The fact that we had to request an additional \$25,000 was based on the fact that we were needing both of their input into this energy consultant plan and also as we went about negotiating the contracts. I think that we have been reasonable in terms of how we used the outside legal counsel. I think if the LAFCo Commission chose to use inside counsel, we would have to think about how we use their services as well and when and if there is a need for outside counsel, that this Commission has some input into this process.

Commissioner Ammiano stated, let me clarify your comments, Commissioner Gonzalez, because there are some very good points made. Are you suggesting that there could be a disruption if we change, and by the end of the calendar year that you would be supportive of outside counsel?

Chairperson Gonzalez stated, I think there was a kind of unique thing happening at the time we went to outside counsel, and we did embark on as I see as a particular project

that will in a certain extent run its course hopefully by the end of the year. So I think, the answer to your question is yes. The other thing I would say is that the determination as to whether to hang on to your attorney also turns on whether or not you are satisfied with their services. We can have that discussion. I am certainly very satisfied.

Commissioner Ammiano stated, I am not on fire about this issue as long as we get good services. I was looking at it in terms of the economics of course. The other thing is there was a history. There was a particular member of this Commission who was also running for City Attorney and was very pronounced in the opposition to the City Attorney's opinions, which is perfectly legitimate, but it was extremely pronounced to the point where it just got to be uncomfortable. I think what Commissioner Gonzalez is stating is certainly in a different vein, but expressing the desire to retain the outside counsel. I am finding his suggestion that we retain the services, which I think has been more than adequate, for the rest of the calendar year very appealing. This way based on his observation, things are not disrupted. The money situation would then be mitigated by the non-disruption, and by the end of the year, we would move to retain the City Attorney, who would then have been briefed.

Commissioner Schmeltzer asked, I am curious why the calendar year versus the fiscal year since the project that we are working on is largely wrapped up? We'll have the report out by the end of the fiscal year. It seems to me that would be a logical timeframe.

Commissioner McGoldrick asked, Commissioner Schmeltzer, do you want to also delineate your thoughts in terms of the difference in our outside counsel. Mr. Maynor is working on one area and then Nancy Miller is working on another area.

Commissioner Schmeltzer stated, primarily, Ms. Miller is advising us on governance issues and general LAFCo issues. That of course is an ongoing process and is not tied to the project cycle. That is the difference between the two outside counsels that we have. There was a mention you made of hybridization of legal services, and that may make sense between the project and general LAFCo.

Commissioner McGoldrick asked, are you suggesting in terms of outside counsel, that Mr. Maynor's work would end soon, but Ms. Miller would stay on?

Commissioner Schmeltzer stated, I am suggesting that that is something that could be open for discussion as far as looking at the project that we're dealing with versus LAFCo, which is an ongoing concern and that we're continuing to get advice on LAFCo generally versus the project in specific.

Nancy Miller, Esquire stated, I just think in terms of your future agendas, we have really been focusing on one issue, which will tend to be wrapped up relatively shortly. I suspect that Mr. Maynor will tell you that his services will conclude fairly shortly unless you have reason to continue on or want additional services from him. As for me, it's

the same kind of thing. Once you get to a point and whether it's the end of the fiscal year, I don't know, because we have some hearings, and you may want to have more hearings. But at least at the end of this project, you may decide that you don't really need to meet on any other types of projects, so your services for anybody may dramatically drop. We're on an as-needed basis so quite frankly, you can terminate or reduce our services at any time. I see that what we're trying to get through right now is a particular process. Whether that's really done right at the end of the fiscal year, I really don't know. But certainly, we see our services as winding down fairly quickly once the study is done and disseminated to the public.

Chairperson Gonzalez stated, just to respond to Commissioner Schmeltzer's issue about the project. I think anybody that has been watching the proceedings here has a pretty good idea that we're focused on trying to put discussion about measures on the ballot, a particular measure that there is some likelihood about reaching the ballot. I think that it is pretty natural that in the course of between the end of June and November or December, you are going to have issues related to the work that we did and the hearings that were conducted. To not have the benefit of our counsel that played such an important role in putting these hearings together and bringing in somebody else that may not have the familiarity and to expect them to be able to come in and adequately comment on, defend, what have you, raises its own burden.

Commissioner Schmeltzer stated, I guess I don't see that as being a particularly pressing legal issue looking at what happened in the public hearings that we were all at.

Commissioner Gonzalez asked, your primary concern appears to be about saving money?

Commissioner Schmeltzer stated, that was raised as an issue. I do think we would save money, but that is not my primary issue.

Commissioner Gonzalez stated, to the extent that it is one of the issues, I am just wondering for the Commissioner generally, what is the threshold? Is it \$50,000, is it \$20,000? I am just curious for folks here how much do we have to save for it to be ...? The other points you raised were the energy plan and LAFCo. I think to the same extent that you are resisting my suggestion that keeping our current counsel in the course of a measure going to the voters and maybe being able to comment on things that were in the plan that gets put together, etc. I think a similar argument could be made about the coordinating of different bodies within the City and County of San Francisco as it relates to different energy policy. Mr. Smeloff certainly comes over and is willing to make presentations to this body. I think an argument could be made that there's no great likelihood that having the City Attorney would facilitate that. The final thing I would say is that is having been here at a period of time when there was a vote to put certain items on the Board, I thought the conflict issue was handled very poorly. While we have a new City Attorney, I do think it is a little bit unrealistic to believe that that entire agency somehow was reformed completely in how it handles business.

Commissioner Ammiano stated, just to not get overwrought about this issue. Once the ballot measure is put on and passes, then any defense or potential litigation would be handled by the City Attorney because then it is the purview of the City and County of San Francisco, and not LAFCo anymore. The City Attorney would have to defend it.

Chairperson Gonzalez stated, I think it would depend what kind of challenge it was and of course who our current-counsel was.

Commissioner Hall stated, Commissioner Schmeltzer you had started to express a secondary or third concern and then you stopped.

Commissioner Schmeltzer stated, the other concern was that in ensuring that we understand what is happening legally, with the City's Energy Plan, and seeing that we're in coordination and not "shooting each other in the foot," so to speak.

Chairperson Gonzalez stated that we have a lot of interdepartmental interagency-type work. I am not sure that the Energy Plan turns on who our counsel is.

Commissioner Ammiano stated, I think we need a motion and counsel.

Donald Maynor, Esquire stated, I hate to argue against myself on this. I think there are a lot of good arguments in favor of the transition. I think there are some advantages to getting the City Attorney's Office more closely involved in some of the things that are going on. At the same token, I think that it may be useful to have Ms. Miller and myself available on a consulting basis when questions or issues come up or the City Attorney's Office, who may not be as familiar with what has happened. It may make sense to get the transition going sooner or later. How that transition evolves depends a lot on how your agendas look like.

Commissioner Fellman stated, thank you for your comments Mr. Maynor. I think that at our last meeting what we discussed was the potential of having the contracts and the termination of a fiscal year and using a renewal ability on a month to month basis. I think what Mr. Maynor just suggested was that we could bring in the City Attorney when needed and bring Mr. Maynor in when needed so we could have the best of both worlds. That would be my suggestion. There are some projects that are going on, and there is also the ballot measure moving forward, and I think we need different kinds of input at this point. We have had excellent service, our hearings were well received. I think Ms. Miller has done an excellent job on the formation questions, so as we wind that initial phase down with the publication of the report and go into the next phase, we can use both services. That would be my compromised recommendation.

Chairperson Gonzalez stated, I think that is somewhat attractive, but the City Attorney does give advice to the Board of Supervisors. One of the ballot measures that is being considered was offered by Commissioner Ammiano at the Board of Supervisors. I think they are already involved in that measure and are playing some role. I tend to

agree with what Ms. Young said in so far as the reality is that the LAFCo has only been meeting to the extent that we've been meeting because of these hearing and trying to put this study together. This was not a body that was meeting this frequently previously. So, I think there is kind of a natural attrition that takes place here. The City Attorney is already involved to the extent that they are otherwise giving advice to the Board of Supervisors.

Ms. Young stated, I need to make sure that you are aware that we will need a decision today because both Mr. Maynor and Ms. Miller's contracts do end June 30, 2002, and there is a provision for us to go month to month. But we need to confirm that. Otherwise, we may or may not be without legal counsel. This is a policy decision for this Commission.

Chairperson Gonzalez asked, Mr. Maynor, what would happen if we went month to month and made a decision at a later time related to when we get this study done? What is your opinion on it?

Mr. Maynor stated, I don't have an opinion on it. What I see as the big project right now is finishing the report. There will be other issues that come along involving the election that may better handled by the City Attorney's Office. I don't know--you are a better judge of that because of the politics. From my perspective, after the report is completed and if I can offer any suggestions or helpful comments on it, I don't see where my role would continue unless you have more issues that you needed answers to.

Chairperson Gonzalez stated, I agree with you. But for me the thinking is questions related to the election, the Board of Supervisors already has the City Attorney to rely on without bringing them here, calling them our counsel, and paying them to do for us what they already do for the Board of Supervisors. While I appreciate that you essentially feel that your work is over, once the report comes in, we're all saying that for the large part, the work of the Commission would be certainly not on the back burner, so to speak. Whether you call yourself our counsel or consultant to the City Attorney, it seems that your role would be identical. So the question for me is the benefit of bringing in the City Attorney into this arena as opposed to the Board of Supervisors.

Commissioner Hall stated, I am trying to sum up my thoughts. Everybody is saying something that makes sense. I agree with Commissioner Gonzalez on the fact that we're half way through a project or whatever percentage we're through with legal counsel that I think we might need on matters specific to the issues we've been working on. However, I think Ms. Fellman's idea of having the option to go to the City Attorney on matters that don't directly relate to the most important thing that we've been working on makes sense. I agree—I think we're better off sticking with the existing counsel. I would like a diversion point at some place downstream. If we happen to divert in a manner that is not related to the subject that we've been working on for the past couple of months, then I think we should go to the City Attorney.

Commissioner Schmeltzer asked, Ms. Young, if we were to follow the terms of the current contract, does it have to be invoked or does it automatically go from month to month? I am not sure how that works. Does that mean that we would have to decide every month as a Commission on retaining them or does that mean we can just go month to month until we get to a point where we believe as Commissioner Hall suggested, that we were at a diversion point?

Commissioner Hall stated, it doesn't have to be month to month. We could do it for two or three months at a time. Between now and November, there are six months. Is that correct?

Commissioner Schmeltzer stated, my question is that Ms. Young stated that there is a month to month provision in there.

Ms. Young stated, what I would do is to prepare an amendment with a consideration of Mr. Maynor and Ms. Miller that would allow us to continue this agreement to the end of the fiscal year working on a month to month basis as needed. So, we would look at it again in December of this year. As you know in our contracts, we do have at any given time with a thirty-day notice, you can terminate the contract.

Chairperson Gonzalez stated, there is also an option with any of the things that are specifically related to issues of concern that our counsel has as it relates to expertise of the City Attorney is that there is no need that the relationship be the City Attorney be counsel and these attorneys be consultants. It could be the other way around. At the time that the City Attorney backed out of representation here, they backed out with no open door, no interest in consulting, and no interest in having a relationship as far as I saw it. I appreciate having a letter from the City Attorney. But frankly, they are not here, they are not addressing the issue, they have not put together a plan of how they would proceed, how they are familiar with what we've done. I find it very unusual that we would just decide today that we would want to hire them. I would much prefer to go month to month and direct our attorneys to speak to the City Attorney about the role they can play in the future and make that transition. We don't have to commit ourselves until the end of the year.

Commissioner Hall stated, maybe I could just offer the amendment if it could be done. Rather than go month to month, which I think makes the existing situation all the more tenuous, I would rather say, let's approve it on a month-to-month basis now for the next three months taking it through September. Then, we could revisit this issue in September when we have a better idea of how much longer we may want to concentrate on what we've been working on for the last three months.

Commissioner Ammiano stated, I will second it.

Chairperson Gonzalez stated, maybe we can give a directive to the attorneys or Ms. Young to speak to the City Attorney and maybe have specificity about what it is they would do for us.

Ms. Young stated, I would appreciate that and if that is the motion and the Commission approves that, we will move ahead to prepare an amendment to the existing contract. If you are interested in pursuing the relationship with the City Attorney's Office, I would ask that direction be given as to whether we have the City Attorney come to another future meeting so you can determine whether you agree with the exceptions that they made in their letter. He happened to be out of town this week.

Chairperson Gonzalez stated, although I tend to agree with Commissioner Hall, I am sure there are other points of view here and maybe we should flush them out.

Vice-Chairperson McGoldrick stated, just on a point of clarification, I think Mr. Maynor has indicated and I think we know that Mr. Maynor's services will not be that necessary by the end of this month. I would assume that within the motion there is an understanding that month-to-month simply means that if and when we don't need Mr. Maynor's services, doesn't mean we have to wait until September to say we have disengaged ourselves if there's no work left. Mr. Maynor's work is different than Ms. Miller's work. I am assuming that means that Mr. Maynor will no longer be billing us.

Ms. Young stated, there is another item on the agenda that talks about outreach and public hearings. If in fact this item goes further than the end of this month, there could be a need to continue to use Mr. Maynor's services.

Vice-Chairperson McGoldrick stated, that's fine, just so there is an understanding that whatever policy we agree to today, doesn't mean that anybody is staying on until September. We may or may not need Mr. Maynor. I would like to see us transition towards the City Attorney.

Chairperson Gonzalez asked, Mr. Maynor, presumably you bill by the hour?

Mr. Maynor stated, yes.

Chairperson Gonzalez stated, so if Mr. Maynor is not working, he is not billing.

Commissioner Hall stated, I think it is a mistake to stop midstream again when we have been working on something for the past, I don't know how many months. I think it is a mistake to switch horses midstream. I am going to make the motion again to improve Mr. Maynor's contract through September right now and then we can revisit this subject then.

Commissioner McGoldrick stated, let me make sure I understand. Approving his contract through September doesn't mean we're approving a contract for three months. We're talking about the fact simply that Mr. Maynor would agree to continue to be available and that each month, he sends us a bill if he works and doesn't send us a bill if he doesn't work.

Ms. Young stated, we will work with the attorneys to draft that up so that we can approve that kind of relationship until September. Commissioner Hall, you made the motion for Mr. Maynor. Did you also want to make it for Ms. Miller or is that separate?

Commissioner Hall stated, it is up to my colleagues.

Vice-Chairperson McGoldrick stated, I think what we could say is that what we are looking to do is retain our outside counsel as needed, and I am not sure we need to put September on it, just continuing on a month-to-month basis as needed. I think that leaves the door open and leaves us with the flexibility of temporal circumstances as they enfold.

Commissioner Schmeltzer stated, I think that works. I am not sure if we need a separate motion to ask Ms. Young to talk with the City Attorney's Office about eventual transition.

Commissioner Ammiano stated, I would think just a direction, we don't need a motion.

All Commissioners concurred to direct Ms. Young to speak to the City Attorney's Office about eventual transition.

Ms. Young stated, if one or two of you wishes to meet with me and the City Attorney so your actual concerns and comments can be addressed, that would be fine as well.

Chairperson Gonzalez stated, remember when you meet with the City Attorney, they can't bill you until we have a contract in place.

Commissioner Gonzalez stated, we will approve the motion unanimously.

Public Comment

No Public Comment

5. Discussion and Action regarding Public Outreach for the Energy Consultant Study and Possible Community Meetings.

Ms. Young stated, there are two reasons this item is on the agenda. First, it is an opportunity if you wish to have some comments about where we are with respect to the draft study. Secondly, this was raised by Commissioner Gonzalez and a member of the public who has been working with us on the energy study, Mr. Kalish. The issue is whether or not it will be beneficial for the Commission to hold public meetings in the community once the draft report is scheduled and what that would mean in terms of cost if we needed to have the consultants actually do the presentations. This is open for your discussion and is a policy decision.

Chairperson Gonzalez stated, Ms. Young, perhaps you can say something about the number of public meetings that we could expect within the existing contract.

Ms. Young stated, my understanding from the existing contract is that we had the public hearing that is scheduled to be held on June 17. There may be an additional meeting when the final plan is prepared. We could talk to the Attorney's Office. I don't believe that we included in the actual contract additional community meetings. That came up after our contract was in place, I believe. Two meetings is what I have said.

Chairperson Gonzalez stated, I guess the thinking here is whether it would be useful to try to see what it would cost us to have these kinds of public presentations. Mr. Smeloff made reference to Pat Martel visiting the various districts with discussions about Hetch-Hetchy and trying to reach out to the public about what has happened, what information was gathered, etc. I don't know that we would have to have one per district, but I do find attractive the idea of there being some outreach.

Commissioner Fellman stated, I would like to suggest that we get a report on the status of the LAFCo report first and then talk about what the public meetings will entail. I think it would be useful to know. In our last conference call that I participated in as a member of the Task Force, we had a slight change in the schedule and our understanding of the schedule. If we could go through where the draft is and talk about the appropriate way in which to represent the report to the public or involve in the public in the report. I think it would be first good to do the status report.

Ms. Young stated, several of you were involved in the conference call that we had a couple of days ago. The status of the report—you have received a first draft that is without the portion of the plan that is going to be provided by Henwood. It is still in draft. There were comments made in the conference call that requested different structuring of the report and some additional bullet points that need to be in the report. Mr. Bell is taking the lead in coordinating the draft study report from the two other consultants, Henwood and Flynn and Associates. It is my understanding that Henwood will provide their information as soon as possible at the beginning of next week. Our hope is that there will be a draft that will include the legal comments that is being provided from our counsel, Ms. Miller. This morning I got a recent e-mail from Mr. Bell stating his concern that he is awaiting the information from Henwood and is hopeful that he will receive it by today or Monday. When he receives Henwood's information will have an effect on whether than information is in a position of simply being plugged into the report or whether it will need to have some editing done. Commissioners Schmeltzer and Fellman, who participated in the conference call on June 5, have also agreed to review the draft plan and to give comments. They can also talk about the comments that were raised at the meeting. I hope to have the draft on the web on Friday, the 14th and copies made and available in our office on Friday afternoon and as soon as possible prior to the meeting on Monday evening. Our concern about putting it on the web is that the public has some opportunity to read it. We recognize that the timing was short because the contract with Henwood was not initiated until the latter part of May. Our understanding was that Henwood was

beginning to work on the plan. We were informed the day before yesterday that Henwood was waiting for an executed copy of the agreement which went out several days ago, but had not reached them yet. They will be working diligently, and it is my understanding around the clock, that we get the information that we need to have plugged into the report. That is the status. I will not be here at the last meeting after the 10th on Monday so Ms. Miller and the Assistant Clerk, Monica Fish will be working together to coordinate those efforts to make sure that the report is available and ready. As soon as they are, we will also electronically send them to the Commissioners. You can comment on the portions that are specific to the Plan. It still needed some work. It is a work in progress.

Commissioner Fellman stated we understand we are working with a very abbreviated timeframe. We had a further surprise when we found out that Henwood's piece had not yet started. Given where we are on the report, they did a good first draft. But it was a first draft. What it means for the public hearing on the 17th is that that hearing will not be set up so that the public can comment on the contents of the report, but rather it will be set up as a presentation of the report to the public. We will have to in my view incorporate some kind of public comment process post June 17th. We need to make it clear for the meeting on the 17th that this is just our public release of the Public First Draft, and that we are in a position to receive comments subsequently. Otherwise, we don't want to say that we released it Friday at 5:00 p.m., and we are having a hearing Monday at 6:00 p.m. We have shifted the focus of that public hearing from what we originally thought it would be. At the minimum, we will need a second public hearing to close the comment period, but also I think we can incorporate some sort of community outreach as part of that comment process.

Commissioner Schmeltzer stated just to follow up as to what Diane is saying. There were significant good portions of this draft. There were significant missing portions—there were placeholders. This is going through the true drafting process. Because there really won't be time unless somebody is very clued in to timing over the weekend for the public to read this, this will be an opportunity for the public to be walked through the draft. It is not the final. Even if we receive no comments afterwards. If we have a public comment period, I still would expect that there will be changes because we will have a chance to look at it and see if we're still missing a piece, etc. The Commissioners will also see this draft and will have some idea about what the focus should be and if there is something that is given short shift or too much emphasis. There will also be an opportunity for the public to ask questions about the draft and hopefully come up to speed faster than they would just by having it themselves. There will be an opportunity to get clarification on what else they might expect to see by the final even if they do not choose to submit comments.

Ms. Young stated, I just had a conversation with Mr. Smeloff, and he can speak to this directly. As I recall, the Energy Plan from the PUC was issued very shortly before they started their public hearings as well. In terms of whether the public was capable of commenting, you may want to ask what their experience was so we may have some

idea what we can expect on Monday because theirs was a very short timeframe. It was on the web and the hearings were in place briefly after that as well.

Commissioner Schmeltzer stated, going along with that I do think we will not have a long comment period just because this is such a compressed process. While this is clearly too short Friday to Monday, I also don't think we were anticipating that there would be a month-long comment period either.

Ms. Young stated, the other suggestion I would make is you may want to get some experience from Mr. Smeloff as to what his outreach district meetings produced in terms of attendance, how we go about that, and whether or not the cost is necessary.

Vice-Chairperson McGoldrick asked, what did you have in mind in regards to public outreach?

Ms. Young stated, this was an item that was placed on the agenda as a direct result of a conversation that occurred at your last meeting, and it was Supervisor Gonzalez that was interested in pursuing this. Other than place it on the agenda as a discussion item for the Commission and to collect some information from Mr. Smeloff about his actual outreach, I haven't gone further in that regard.

Vice-Chairperson McGoldrick stated, I want to talk to you further about that because the PUC outreach in the Richmond District produced I believe five or six staff members and five or six members of the public, which I would term gently as a feeble turnout. I think what we need to do if we talk about public outreach is figure out how we are going to do it also in the least expensive way. I understand that was done by a private consultant, and I am not sure that turning out five or six members of the public in a neighborhood as large as the Richmond of about 85,000 people is an adequate level of public outreach. I think there are ways we might be able to do it inexpensively as well and perhaps use the various contacts we have through the Supervisor's Offices along with your own contact list that you have developed. So before going too far along that line, I want to make sure you consult with us so we can make sure we don't go expending a lot of money that doesn't really produce as many bodies and participants.

Ms. Young stated, I think the Commissioners may want to hear from Commissioner Gonzalez. Our conference call that we had prior to the one on June 5, I believe the consultants also had some comments about their involvement in outside consulting meetings, and perhaps they can provide more readable information or provide us with more opportunities. Maybe the information could be distributed in various ways and not necessarily use their attendance at those meetings which would in fact be more costly.

Chairperson Gonzalez stated, I think Commissioner McGoldrick is making a very good point.

Commissioner Fellman stated, I agree. In our last conference call with the consultants, they were going to provide an Executive Summary for the report that can be used for those purposes. I was just going to suggest in our dialogue on what to do about public comment that if appropriate to take public comment out of order and include it in this conversation to see if there is anybody in attendance today who has thoughts.

Public Comment

Mr. Charles Kalish stated, I work with Commissioner Gonzalez on the LAFCo and energy issues. I put forth the idea of outreach in a much more extended manner than what has been suggested here at all. This is the reason why. I was given the experience of what happened at East Bay MUD after R. W. Beck presented the plan there. It was not spread to the community either in an effective manner or in fact a completely forthright manner. A suggestion that was made to me by one of the people that was involved over there was to really get the community involved to go to many organizations, not just district and invite people in. But to go to everything from the Commonwealth Club and the Chamber of Commerce to local Asian-American, African-American groups, put ourselves on the agenda, simply have one person from R. W. Beck. I spoke to Mike Bell about this—he said it was very doable. We are talking about an hour or an hour and a half of his time, but many evenings and a short period of time to really communicate your findings. I think it is the responsibility of this Commission to do that. There has been a lot of confusion over the past months over what public power means. This would really help to spread the word and have that filter out in a very meaningful manner rather than these district meetings where only six people show up. I think it would be very cost-effective. I can't see it costing more than \$10,000 or \$12,000 if we got to two dozen of these types of meetings.

No other public comment.

Public Comment closed.

Mr. Maynor stated, I just want to share my concern about the release of the report too soon. I think we shouldn't release the report in any form unless you have seen the Executive Summary and you are comfortable with it, that it captures the direction you want to go. Particularly if this outreach program is going to be effective. I think to Mr. Smeloff's credit, he put together an outstanding presentation where you could get the essence of where he was going with it, what the key points were. The status of the report right now is very rough. There is a lot of information in it, but there's not direction to it. To make sure that not only the consultant captures the direction but you agree with it, I think is really critical. Releasing it too soon could be a mistake. I don't know how you solve that problem. I think we are all concerned about the timing on this, but I would rather you make sure you are comfortable with what that first step is in presenting it.

I put together some comments that I was going to share with Mike Bell, and I will hand these out now. These are suggestions as opposed to something that has to be in the report. I think the idea would be to have a sense when you first read the report you read the purpose or the Executive Summary that would capture these various sections. These are going to be complicated to read. I think that is important that you are comfortable as to how that is captured. The other ideas are just recommendations or suggestions to the consultants whether they want to use them or not.

Commissioner Schmeltzer stated, we had a conversation on the phone as part of this Task Force on Wednesday and went through everybody's comments to the direction of the report and the items that we thought should be incorporated or changed. Do you see that as summarizing something as you said Wednesday, or is this something new?

Mr. Maynor stated, it says what it says.

Commissioner Schmeltzer stated, I think I see new things here.

Mr. Maynor stated, they are things that I have said in the past, and I thought about them this morning and put them on a piece of paper. This is what I would have intended to send to all of you as to what my recommendation would be.

Commissioner Schmeltzer asked, I am just wondering why we didn't hear them Wednesday, and some of the ones that we discussed Wednesday and talked about and thought came to an agreement on.

Mr. Maynor asked, what in particular?

Commissioner Schmeltzer stated, history of electric utilities in California and constitutional right.

Mr. Maynor stated, I mentioned that before. I don't think we covered every single thing that was going to be in the report yesterday. When I thought about it afterwards, and we just got the report the day before as you know, I thought what would be helpful for me if I were reading the report. I think it's important to have not forty pages of history or a reference and bibliography, but a page that points out why the City has a very important constitutional right whether they want to exercise now in view of the things that are going on. It ties back to that history. I think it would be useful to have that in.

Chairperson Gonzalez stated, Mr. Maynor, it may be that Commissioner Schmeltzer is concerned because it gives the impression that it would be a major section.

Commissioner Schmeltzer stated, I am actually more concerned that we are moving so fast on this document and everybody read it. We spent a couple of hours on the phone talking about all of these things, so I just hope we are able to move forward from there and not keep going back.

Mr. Maynor stated, I could write up that history in half an hour, send it to you, and see if you like it or not.

Chairperson Gonzalez stated, I think we are moving off of the item that we are actually on, which is the public outreach, and I would like to bring that to a close.

Commissioner McGoldrick had to leave, and I am going to have to leave. I have to go to a school in a district, and so I think we should take a five minute break and reconvene. I think there will still be a quorum here.

Commissioner Fellman asked, do you want to take a break to consider the community outreach? I was going to say if we could close community outreach.

Commissioner Ammiano stated that we are going to close community outreach and then take a five-minute break.

Chairperson Gonzalez stated, I think my instinct on the community outreach would be let's wait until we have the Executive Summary, Ms. Young. You have certainly spoke to Mr. Kalish. I agree with what he is trying to accomplish with the concern that Commissioner McGoldrick raises which is let's not have meetings where nobody attends and try to come up with a balance. Maybe we could inquire what this would cost.

Commissioner Ammiano stated, I concur with that. My caveat is that in being involved in many issues over the years that going to community meetings that already exist and are structured is a great idea, but really getting the most updated list is very important because a lot of these organizations do not meet anymore, etc. That is going to take a little bit of time to hone the meetings that actually do happen and are legitimate meetings and that we can be part of an agenda for that particular community meeting.

Ms. Young stated, what I would also suggest is that Mr. Kalish could contact agencies and the groups that he has identified and encourage them to be at our June 17th meeting because they would start from the beginning in terms of being a part of this process. We could see and get their input as we meet and after that determine what our next steps are.

Commissioner Ammiano stated, a number of Supervisors have community meetings in town forums anyway, and the attendance at those is very good. That might be another meeting that we could piggyback on.

Commissioner Schmeltzer stated, also, if Mr. Kalish has a list of contacts that we could e-mail a link to the report since it will be on the web. The public hearing will be televised as well if people can't attend.

Ms. Young stated, yes the meeting is going to be televised. We have placed the notice of our meeting on Citywatch. It is on the web. We have also included it in the Board of Supervisors outreach ad, which is published in all of the neighborhood

newspapers. We have done a great deal of outreach and we have noticed it in the newspaper as well. What I would ask is that Mr. Kalish gives me a list of addresses of the people he would actually like to have included in our outreach.

Chairperson Gonzalez stated, I do have to leave. I think the direction we have given Ms. Young will serve as our motion to have her put together a proposal for us of some kind in the future related to how we might do outreach and what it might cost us and some of the options we might have.

Commissioner Fellman stated that I would suggest that when we go into the meeting on the 17th, that we have a process for comment.

Chairperson Gonzalez stated, that is for the meeting on the 17th. We are talking beyond that.

Commissioner Fellman stated, so that we can announce to people so that we schedule the meeting to discuss that process because there might be people who come on the 17th that want to hear about that.

Chair Gonzalez stated, yes and no. I think the concern was whether we want to go far enough along the process and have the report before we're completely committed to this.

Commissioner Fellman stated, I think we need to schedule our next meeting when we're going to discuss what the process is going to be, so we can let people know that on June 24th or whatever...That's what I am suggesting.

Chairperson Gonzalez stated, we will place it on the agenda. We will conclude this item.

The Local Agency Formation Commission meeting recessed at 11:20 a.m.

Acting Chairperson Ammiano called the reconvened meeting back to order at 11:40 a.m.

6. Report by Commissioner Ammiano regarding the public power authority measure.
(Continued from the May 10, 2002 Meeting.)

Commissioner Ammiano motioned to continue this item to the next meeting; Commissioner Schmeltzer seconded. Approved without objection.

No public comment.

7. Discussion regarding SF LAFCo's Future Work Plan.

Commissioner Ammiano motioned to continue this item to the next meeting. Duly seconded. Approved without objection.

No public comments.

8. Discussion on Senate Local Government Committee; Cortese-Knox-Hertzberg Local Government Reorganization Act, Implementation Survey, May 2002.

Ms. Young stated you have at your places and as part of your packet the survey that I have completed and forwarded to the Senate Local Government Committee. They did request that the LAFCo Commissions place this item on the agenda and concur with the survey. If you concur with the survey responses, I will send them a memo that the Commission is in agreement.

The Commission unanimously approved the Implementation Survey responses.

9. Future Agenda Items

Ms. Young stated, I would suggest that at our June 17th meeting, we can after that meeting come to some decisions about our next meeting. We will probably then have an idea from the consultants in terms of what they project to be their second draft. We can also with the input of the public look at whether we would need another meeting before we start looking at the outreach items that Commissioner Gonzalez has asked for. Unless the Commission is interested in setting a meeting to date.

Commissioner Fellman stated, I recommend we set another meeting two weeks from the date of our public hearing so if we have public comment or whatever our process is, that we at least have that public notice going out.

Ms. Young asked, are you suggesting a public meeting or a meeting of LAFCo?

Commissioner Fellman stated, to schedule a LAFCo meeting so we have a springboard to go forward. There may be a public comment period after the 17th.

Ms. Young asked whether or not the Commission would want a meeting on Friday, July 5th. We would need to have it soon because of the contract.

Commissioner Schmeltzer stated, I would say we should have it on the Friday before.

Ms. Young asked, June 28th?

Commissioner Ammiano stated, it would be preferable that the meeting was in the afternoon because Commissioner Hall and I will have to be at the Golden Gate Bridge Board.

Ms. Young stated, is June 28th at 2:00 p.m. appropriate?

Commissioner Ammiano concurred to schedule the meeting for that date and time.

No public comment.

10. Public Comment on Items not on the Agenda

No public comment.

11. Adjournment

The meeting adjourned at 11:53 a.m.

San Francisco Local Agency Formation Commission

7/02 City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102-4689
Tel. 415.554.7702
Fax. 415.554.5163

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AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence.
These items will be available for review at City Hall, Room 244, Reception Desk.

Special Meeting
Monday, June 17, 2002 at 6:30 p.m.
City Hall, Board of Supervisors Chambers, Room 250

Chair: Commissioner Gonzalez; Vice Chair: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall, and Schmeltzer
Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call
2. Public Hearing: Discussion regarding the First Draft of the Consultant's Energy Services Study.
3. Public Comment
4. Adjournment

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee

Clerk of LAFCo, San Francisco Board of Supervisors, 1, Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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MINUTES

Special Meeting

Monday, June 17, 2002, 6:30 p.m.
City Hall, Room 263

Chairperson: Commissioner Gonzalez; Vice Chairperson: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chairperson Gonzalez at 7:15 p.m.

Members Present: Chairperson Gonzalez, Vice-Chairperson McGoldrick (noted present at 8:20 p.m.); Commissioners Schmeltzer and Fellman

Members Absent: Commissioners Ammiano and Hall

Chairperson Gonzalez stated, I am informed that because Commissioner Fellman is Commissioner Schmeltzer's alternate that we don't have a quorum insofar as we can't take action, but we can begin the public hearing. Just for the benefit of those that are here, Commissioner Ammiano who is the President of the Board of Supervisors is in the Board meeting that is still taking place as is Commissioner McGoldrick. Commissioner Hall, I believe, is in Ireland at the moment.

2. Public Hearing: Discussion regarding the First Draft of the Consultant's Energy Services Study.

Nancy Miller, Esquire stated, this agenda item is set for a presentation of the Draft Energy Services Study that has been prepared by R. W. Beck, Henwood, and Flynn

and Associates. At this time, unless there are questions from the Commissioners, we should go ahead with the presentation.

The Commissioners agreed to proceed.

Mr. Ken Mellor, R. W. Beck stated, I am going to try to go through this presentation relatively rapidly. As we go through, I am going to turn part of it over to Mike Bell who will finish it up.

Chairperson Gonzalez stated, I am not sure whether any of the other Commissioners are in a hurry. I am not in a hurry now that I am here, so take your time.

Commissioner Fellman asked, if we could just lay out the process for this evening.

Chairperson Gonzalez stated, I think we will hear from the consultants who have prepared the report and then we will open it up for public comment. The Commissioners can ask questions any time during the presentation or afterwards.

Commissioner Fellman asked, are we going to allow the members of the public to ask direct questions to the consultants?

Chairperson Gonzalez stated, they can come forward in the process of public comment and present questions that they think have not been adequately answered. To the Energy Consultants—how long will the presentation take?

Mr. Mellor stated, I think the presentation will take twenty minutes. I would like to start first with the purpose of the activity, the structure of our report, and talk about the industry structure. First, the purpose of this study is to support the development and the evaluation of San Francisco options. We've gone through a number of options, and we've looked at some key elements associated with those options based on what you asked us to do in the first place. That is particularly looking at the effect of any of these options on rates, costs, and pricing. Secondly, to look at reliability issues as to whether any of these options would provide more reliable power supply in San Francisco and then finally, looking at the issue of local control. You will find our report is organized that way to look at the options and then look at those key elements.

We've also broken the report into elements that really track the makeup of the electric utility industry. That includes first the wholesale power supply side, the generation aspects, and secondly, transmission. I would say that to start with, on the wholesale power supply side, that part of the report was done by Henwood Energy Services. Jim Davidson is here from Henwood and will be available to answer questions. I will try as I go through the report to talk about which parts were done by different consultants.

Secondly, we look at the transmission issues and Barry Flynn is here from Flynn Resource Consultants. So, he looked at the transmission issues, particularly the congestion into the San Francisco Bay Area. Thirdly, there is a section on the retail side of the business, that is the delivery and various ways to deliver energy to the retail customers or the end users. R. W. Beck did that, and Mike Bell is going to present the

key parts of that. Finally, there is a section on conservation, energy efficiency, and renewable resources, and Mike is also going to talk about that.

As we get into this, we will find that we really focused on three different ways that you could structure this. One continues to rely a great deal on Pacific Gas & Electric Company as the distributor. Not just PG&E, but also the other status-quo participants like the California ISO for transmission concerns. On the generation side, the developers who are already in developing power plants. So we have looked at each of those aspects and compared those different approaches. We have also then looked at the San Francisco Public Utilities Commission (SF PUC) as a second tier or entity that would take charge of any one of these unbundled parts of the industry. Thirdly, looking at a new San Francisco Municipal Utility and you will find in the report, and I know it is confusing. When we talk about either of those two, the SF PUC or a new San Francisco Municipal Utility, we have called it SF Muni. We understand that is probably not a good term. We would invite anybody to come up with any suggestion that allows us to go back and globally change it so that we can come up with something that really says, we know that there is an initiative to look at changing the way the SF PUC is governed. Whether it is that approach to life, but we are really talking about some form of municipal entity being in the fully integrated power business in San Francisco. We don't know the right term. The fact is that when you go through this and look at the different results of either the SFPUC or a new Municipal Utility, you will find they are very much the same when they come to local control and when it comes to pricing. All those things--either one can do it about the same. So, we've combined them for discussion purposes to simplify the report. Any ideas as to what to call that approach would be fine.

We have a section in the report that talks about the industry structure and some of the important activities that have been taking place and will continue to take place and how that might affect the decisions that LAFCo would make with regard to which of these options to take. The first is that Pacific Gas and Electric Company is still in bankruptcy. A bankruptcy judge has two different options as to how to get them out of bankruptcy before them. The stakeholders are voting as to which of those to take, and it is likely that they will say that either one would work from their point of view. What comes out of the PG&E bankruptcy and that structure will be very important to rates and pricing issues. It will be very important to the options that you had before you. We just don't know what the outcome of that is going to be.

The second is that the Federal Energy Regulatory Commission has a number of proceedings underway. They are looking at whether or not there should be rebates because of the high prices in the year 2000 and 2001. They are looking at regulatory issues. How do they get rid of market gaming. They are looking at price cap extensions, and they are looking at transmission ownership whether there should be a regional transmission organization, whether it should follow what the current Independent System Operator is for California or some other structure. All of those things are going to effect how transmission is priced in the region. All of those are important and all of those create some uncertainties. The next issue is the California

Public Utilities Commission (CPUC). The CPUC is looking at direct access, whether it should be reinstated, whether in fact the right date for cutting it off was September 20, 2001 or July 1, 2001. I think more importantly they are looking at what they should do to be able to extend direct access. That is the ability for retail customers to choose their energy supplier. When they make that decision, it is very likely that coming along with that decision will be decisions on how those customers who take a new supplier will pay for obligations that have already been created. We call that non-by-passable charges, exit fees, whatever they might be. Those numbers are still very unclear and uncertain. I think we're getting some focus on them. As that happens, then the cost of the various options to you will start to change. You are going to need to track what is going on at the CPUC, and that will be very important to your long-term decisions.

Let me now shift to power supply. As I mentioned already, Henwood Energy Services has played the key role on developing this part of the report, and they are here to answer any questions at the end of this discussion. First, in 2000 and 2001, they talked about what happened. They talk about the fact that the investor-owned utilities were in effect required to be in the spot market. That is, they didn't have long-term contracts. The spot market was very volatile. It was a year when we had low hydro production, and that created losses of imports that would normally come into California. There were gas delivery problems driving up the price of natural gas which fueled the marginal generating units, particularly the combined cycle of gas-fired generating plants. Then there were traders manipulating the markets both in the gas and electric side of the business. Price caps that had been set by the Federal Energy Regulatory Commission (FERC) were not very effective. All of those things caused the problems that we had in 2000 and 2001.

Going to the near-term outlook. What Henwood has said is the fact that we had an economic downturn reduced the demand for electricity. Conservation was very aggressive in California so that helped. There are price increases. You've noted the PG&E price increases for example. There is price elasticity. You've increased the price 50 percent and people use less electricity so that was part of the game. New generation came online and regulation started coming in and taking care of some of the problems that were out there in the industry. All of those things ended up in a near-term outlook where wholesale prices have stabilized. There are comfortable reserve margins. Most folks think that we're going to get through this summer without major problems. However, all of those things I have mentioned earlier still create the uncertainty as to what's going to go on in the future. In fact, we have seen in the last two weeks some pretty volatile prices again. Even though what Henwood is saying that on average they are seeing stability in prices, we are still going to see volatility in real time from one week to the next depending on weather and those kinds of factors.

With regard to long-term outlook. One of the issues, and you will find this is mentioned both in the generation and transmission sections, the move of the regulators to locational marginal pricing could be very important to the City of San Francisco. That is because costs that are currently being averaged over the entire PG&E service area and in fact the whole state as far as transmission could all of a sudden be changed

such that San Francisco bears the brunt of the fact that they have insufficient transmission and generation in the area such that you are in a congestion area a lot of the time. So that locational marginal pricing could increase San Francisco's costs. There is the environmental risk from local gas-fired generation. A lot of attention has been given to that. There is technological change that could mean that any new generation that is built could have a technological shorter life. Also the fact that distributed generation and other kinds of generation are coming along could change the economics of something that is built today or tomorrow. All of those things create somewhat of a problem. If you look at the San Francisco situation with loads during peak of around 960 megawatts (just to put that into perspective, 1 megawatt is about the size of a big box store), so you've got the equivalent of 960 big box stores in San Francisco. Of that, about 650 megawatts of generation in the City is showing the reliance on transmission. That transmission is insufficient when that generation is down to support the whole City. So you need generation running in the City. The combination gives you problems with negative reserve margins, and so there clearly are some issues as far as generation in the San Francisco Bay Area.

Wholesale generation risk factors. One of the things that is stressed in this report is a need for integrated planning. One of the things that has happened with unbundling the electric industry is that nobody is doing that integrated planning right now. The generators are doing their planning, and they are doing that by themselves. They are not supposed to even be talking to each other. So each one is making their own decisions, financial for new generation resources. The transmission should be being planned by the California Independent System Operator, and that's not truly happening. So the transmission plans are not necessarily coordinated with the generating plans. Meanwhile you have conservation and demand-site management potential for distributed generation. All of those things that would reduce the requirement for transmission and generation and to the extent that you invest in that but it's not coordinated with the other things—you have a problem. So one of the issues here is how do you get integrated planning, and that is a function that would be very valuable for somebody to be able to do, hopefully, in San Francisco.

Secondly, price volatility. I mentioned that long-term average, Henwood sees stable prices, but in the short term, they change a lot. To the extent that people are out there on the spot market, then there is a great deal of risk if you are in that position. Forward contracts can be used to hedge those spot-market prices. So if you have a large part of your generating resources in long-term forward contracts, as long as the counter-party to those contracts are financially viable, then you have been able to hedge against those short-term markets.

Then there are all the other issues that go into this. If you are in the generation business and you are reliant on customers to take your supply, and those customers have the option of leaving, which they would under any of the direct access approaches. Even the community aggregation approach, the customer has the option to opt out and go to another supplier. If you have long-term commitments for generation, then you can have that kind of a problem. So you have the risk both on the

load side and on the supply side. If you own generation and it's down when you need it, all of those things put the supply risk on you. There is fuel price, which has been much more volatile in the recent past than it used to be. You have the regulatory risk. We don't know what's going on at FERC or the Public Utilities Commission. Weather changes the availability of hydro. It changes load substantially and then the transmission issues that we'll get into in a minute.

Finally, on power supply. There are a number of options, and I would note that we have put these options together. These were not put forward by Henwood, so I want to make it clear that this is R. W. Beck trying to put down some options here. One of the options is to continue to rely on PG&E and CAL ISO and hope that they do a good job in being able to develop the generation of transmission resources together that meets San Francisco's needs. The second is to continue to develop renewable resources. This won't do all of it. The more that you can do to get local generation through renewable resources will be advantageous to reduce the need for those other resources. You can rely on the developers—the Calpines and the other folks of the world who are out there building generation. They can come in and build generation and you can rely on them to do that certainly with a lot of local control. You can hope that gets it done. If you don't do those things and you quit relying on other folks, then the question is what can the City do? What we're suggesting is you can invest in transmission upgrades, and I'm mixing transmission and generation here a little bit because you cannot separate the two. So, you can improve your local situation with transmission, or you can improve your local transmission with generation. That means you can invest in either one of those, and there are different ways to recover your costs of that investment and we will talk about that as we go along.

Turning to transmission. Again, I would note that this section was developed by Flynn. There again, this locational marginal pricing comes up. Right at the start, the proposed regulatory changes that look like they're coming out of the Federal Regulatory Energy Commission seem to be pushing locational pricing. That would mean that because there is congestion into San Francisco, that San Franciscans will end up paying higher prices than people outside until that condition is fixed. San Francisco has less reliable electric service than other parts of the state and that's again because of the old and unreliable generation within the City and this limitation on transmission into the City. There are proposed Bay Area transmission additions, which would increase reliability and lower the exposure to those congestion charges. Conservation and local generation would help offset the need for that and improve reliability.

As far as opportunities for the City. The City can develop new transmission. There are different ways of entering the transmission business and recovering your costs. If you were to build transmission and turn it over to CAL ISO for its operation, then you could get your revenue requirements, that is the cost of doing that back from the money they collect system-wide, and you would be pretty well protected for your investments. If you do that, then you increase the reliability of the system and you lower this exposure to the congestion charges. A second approach would be to create a control area in the City. Again, if you did that you would invest in transmission, but you would probably

also eat the total cost of that transmission. That is higher costs, but you would get some additional reliability benefits potentially. That is, if you can escape rotating blackouts because you can show that you're fully resourced in San Francisco, and you have (unclear) this control area, then you might be able to avoid those rotating blackouts and improve reliability. But there is a cost of doing that. It is an expensive approach and it would probably overall increase prices. You can't have targeted transmission. Right now, the San Francisco Public Utilities Commission is building some transmission lines. Therefore, city loads could be expanded to serve other loads and have the capital investment of those transmission facilities paid off by being able to serve those additional loads. That would potentially lower the cost for everybody in the City. Those are the main transmission options. With that, let me turn over to Mike, who is going to talk about the retail side of the picture before we go to questions.

Mr. Mike Bell stated, let me start out by first announcing the current service providers within the City. There are two. One is Hetch-Hetchy Water and Power which provides power to mostly City services and loads. The other is Pacific Gas and Electric Company serving residential and business consumers within the City. The options that were evaluated in this stage of the study include aggregation, integrated distribution services, and spot municipalization. What I would like to do is spend a few minutes going through each of those options and identifying the key issues and components of those options. We have broken the aggregation into two different basic services. I should point out at the outset that aggregation as of today is not viable because state law prohibits it. But aggregation is well worth discussing at this point because it is very likely that at some point in the future it will return as an option. It should be certainly discussed within the context of this study since it is likely to reappear.

The first alternative that we looked at is facilitator of aggregation. This is based on the association of California Water Agency models or what I will call the "Aqua" model. In a moment, I will show you a graph that in a pictoral sense makes it a little easier to communicate the message that I am trying to communicate here. In this alternative, the City would facilitate the contracting of these aggregation models. There is very limited financial risk to the City because they are not a party to the contract. In this case, they are assisting others to enter into these contracts. They provide stable and predictable energy costs and also provides the City with an opportunity to provide renewable resources. The graphic demonstration of this model gets to the point that I was making regarding risk. In this case, the City would actually facilitate by going out with a Request for Proposal (RFP) the acquisition of energy service providers that would then enter into contracts with individual end-users thereby effectively insulating the City from taking a risk position in terms of providing this service. That is the facilitator option with regard to aggregation.

The alternative would be for the City to become an energy service provider itself. This is a model that is akin to what the Association of Bay Area Governments did while aggregation was in place. In this case, the City would be responsible for contracting and would be in a position to assume greater risk. It also provides a better ability to manage and hedge costs and may provide more substantial returns for those parties

involved. It, also like the other model, provides for the ability to include renewable resources in the portfolio. Just to compare and contrast this to the earlier model. In this case, the City would actually enter into contracts. That could be with generators, with marketers, with energy service providers or any combination of those and then would in turn would enter into contracts with end-users for the use of that power. Similar concept and ideas, but entirely different risk principles involved.

Finally, with regard to aggregation. It's worthwhile spending a few minutes to talk about AB 117, which is the Migden Bill. Under this bill, there is an opt-out provision. I will come back to that here at the end. That is important in terms of providing for customers right up front should this bill pass and become legislation. Also included in the bill is that the service boundaries would be the same as the existing current boundaries. In this case, the same as the City boundaries. It also includes provisions to compensate the California Department of Water Resources for the contracts and supplies that it has contracted for and allows the Public Utilities Commission to set exit fees for those that would be exiting the IOUs facilities. This bill would be similar to the standard aggregation concepts except this City would not compete for initial customers. Essentially, under this bill, if the City were to move forward, all those customers would move over to the City-service provision.

Chairperson Gonzalez asked, I take it the customer would have to opt-out?

Mr. Bell stated, that is right. That is where that term comes from. Typically, that is a lot easier in terms of that many people choose not to take that action so your customer base right at the outset is going to be a lot larger than having to go out and sign people up.

Chairperson Gonzalez stated, is there a theory on what the percentage difference might be?

Mr. Bell stated, I haven't seen, but it's probably going to be a very high percentage, maybe 80 percent or higher that would remain.

Commissioner Schmeltzer asked, do you know what the numbers were in San Francisco for people who opted out of PG&E service when that option was available?

Mr. Bell stated, no and said he would move into integrated distribution services. The options there would be to maintain the status quo as we have discussed with PG&E, CAL ISO, and existing providers. Another option would be the PUC Hetch-Hetchy Water and Power option. There also could be a new independent municipal utility established under a different scenario. There is the possibility for spot municipalization which is simply municipalizing new services as they are developed as opposed to existing services. Lastly, some combination of the above. They don't necessarily all have to fall into one of these boxes. There is the ability to mix and match. What we tried to do in the next several slides is provide a comparison between the public or municipal service as opposed to PG&E services. This first chart really gets at the basic

fundamental operation of the systems which under either circumstance are going to be fairly similar. First the electric distribution operation and maintenance—the standards, construction practices across different utilities are pretty common and pretty standard. There wouldn't be much difference depending on the ownership for that particular category. The reliability—the standards are measured by the same indices. In this case, the frequency and duration of outages. Those would be similar standards. From a safety standpoint, no matter who the owners of the facilities are, they would need to comply with General Orders 95 and 128 standards. So on this side, there are very few differences.

Where we start to see differences from ownership begins with the financing and pricing, the financial side of the business. Publicly-owned systems have access to tax-exempt debt for at least portions of their business. Whereas, the investor-owned systems are on taxable basis are through some stock issuance. Sometimes within that environment as we have seen of late, the ability to finance can be unpredictable and at times costly. You are seeing that right now with the independent power producers who are having difficulty raising funds in the capital markets. There are also substantial differences in rates and pricing between the public systems and investor-owned. The public systems have historically enjoyed a rather sizable price advantage over the investor-owned systems on the order of magnitude of around 20 to 25 percent. Usually though, we find that IOU's have more pricing options involved in their rates. Sometimes with that comes more complexity. The issue of taxes often comes up comparing publicly-owned systems with the investor-owned. Public systems are not obligated to pay all of the same property taxes and franchise fees that investor-owned systems are. However, it is important to note that many public systems do pay fees that have a different name, but essentially provide for the same compensation to public agencies that they are members or within local jurisdiction of.

Chairperson Gonzalez stated, before you move on. The question of the prices being traditionally lower from a publicly owned versus IOU. To what extent is that directly a result of the tax-exempt bonds, or is it the other way around? Is it some of the exemptions from property taxes and things like that?

Mr. Bell stated, it is a combination of all of those factors.

Chairperson Gonzalez asked, which would you say is the most significant?

Mr. Bell stated as of late, I would say that owning one's own generation has provided the greatest savings. Those municipally or publicly owned power systems that have not been subject to the spot market price volatility and have had some self-control or self-generation are the ones from a financial standpoint that have beared well. Long term, having the advantage of tax-exempt debt and the other options are of value. If you were to look at a thirty-year period of time, it would be a greater portion of that picture. Certainly, in the last two years, the insulation that any of the publicly-owned systems have had to the generation costs has been quite substantial.

Finally, with regard to the comparison. The publicly-owned systems are self-regulated and in many cases have an elected governing body and in some cases appointed governing bodies that are appointed by elected officials who are accountable to their local constituents. Whereas, the investor-owned utilities are regulated at least by the Utilities Commission and the Federal Energy Commission.

Chairperson Gonzalez stated, to the extent that you are seeing a value in outside an elected body insofar as you have appointments by an elected body—doesn't that apply to the CPUC or the FERC?

Mr. Bell stated, in a global stance, yes. For example, a FERC is a good example. When prices started to go up in California and the FERC was petitioned not only by first the constituents and residents of San Diego, but later the investor-owned utilities themselves. They failed to take action and address what was perceived at the time as a California problem. It was only after the entire Western United States, the states of Oregon, Washington, Nevada, Arizona, and Utah all started to experience problems that FERC started to take action. It was slow in coming. I guess the point that I am getting at is when you talk about local control, it is local, not in Washington, not elsewhere where it is more difficult to get through to those individuals.

Chairperson Gonzalez stated, I guess I am not thinking of it from the view of a geographic question of local control, but really whether or not how far away are you from that direct democracy of the elected decision makers? I think you probably saw Mr. Smeloff's presentation about some of the distinctions in some of the various utilities throughout the country and various models. But anyway, I interrupted you because you were setting up the dichotomy on the one hand of what it is to have a direct election and or appointments from elected folks. It seems to me that essentially encompasses any paradigm or model that you could come up with.

Mr. Bell stated, and that is going to flow through any number of these and would be an important area of discussion and further debate in terms of how best that could be structured. Back to the public purpose programs. Again, having the local control allows for programs that are tailored to meet local needs and local concerns. Many of the existing public power utilities have structured their programs for their own unique needs as opposed to the IOU programs, which are basically established by the Utilities Commission and the Energy Commission and apply to all parties involved. It just simply provides for local flexibility and control. Then resource mix, the municipals and public power systems have generally had greater access to federal hydro-power whereas the IOU's have had declining access to the power.

What I would like to do next is talk a little bit about the impact of the alternatives starting with the facilitation of aggregation. What we would envision is that there would be a small positive price impact of facilitation of these types of agreements. Unless Hetchy-Hetchy power was available, in which case that could be a substantial amount. For purposes of this study, we have not assumed that the Hetch-Hetchy power would be available. That would be something that would be worth pursuing and evaluating were

the City to move forward. We've said no change in reliability here simply because the size of this program would probably be relatively small and focus on the end-user and wouldn't change that reliability picture greatly. But it certainly would provide for greater local control in terms of rates, public benefits, and so on. The aggregator as an energy services provider would have a small positive impact unless Hetch-Hetchy was available. Also, very little change in reliability and greater local control. This is very much like the facilitator absent the risk. I am going to spend a few moments on the full municipalization.

Mr. Dennis Mosgofian asked, why make the assumption that Hetch-Hetchy power isn't available when the presumption is from Prop F today that we were working on simply reforming the PUC and renaming it Water and Power Agency? Hetch-Hetchy was not changed—it was part of it and so was the power.

Mr. Bell stated, the reason we've not assumed that is because we believe that there would be certain legal questions that would need to be entertained as part of that analysis. There are existing contracts that Hetch-Hetchy has to provide output and sell sales to other entities. That would need to be reviewed. The point that we're making is that is certainly a strong and powerful consideration, but we are not attorneys and certainly not able to provide an opinion whether that would be available. Under either option it would be something that would be clearly in the City's interest in pursuing.

Chairperson Gonzalez stated, to the extent that you are talking about municipalization at all and about SF Muni, wouldn't your remarks now equally apply to that? That you're not an attorney and that would require a certain action on the part of either a local government or the citizenry to change let's say the SF PUC. It seems to me a fair area of inquiry that notwithstanding the commitments we have to the long-term contracts that Hetch-Hetchy might have to Turlock, Modesto, whatever, that it is...

Mr. Bell stated, let me say that it is entirely conceivable that those potential obstacles could be circumvented. But from the standpoint of an analysis or an initial feasibility review such as this to simply assume that that would be the case would be an unsafe assumption.

Chairperson Gonzalez stated I am not asking you to assume that that would be the case, but it is an option to the extent that we might take certain steps that make the assumption real.

Mr. Bell stated, that is why I am trying to point out that that's an important piece and is very critical should the City move forward to include that package. By small, I mean it is probably in the range of single-digit percentage absent that piece. If you include that, it is well into the double digits.

Chairperson Gonzalez stated, it might be helpful that as you consider some of the options from aggregation to municipal control that in certain of those models, Hetch-Hetchy power and the ability to make it available is a consideration.

Commissioner Schmeltzer stated, in moving from this draft to the next draft, it sounds like there is the opportunity to incorporate some more explanation about the role and the potential role of Hetch-Hetchy. Giving an analysis of what the percentage difference would be if it were available versus if it were not available is something that it sounds like you have a pretty good idea about and could incorporate into the discussion. Is that correct?

Mr. Bell stated, we could work as we finalize the report and as you duly note, this is a draft and it is still a work in progress. That certainly would be appropriate to do as we move forward.

Impact of alternatives for full municipalization. Prices under full municipalization would be very much dependent upon the cost of acquisition of the system. Any potential severance cost from the PG&E system, the overall power-supply, and any exit fees that may or may not apply. Again, not to belabor the point, but Hetch-Hetchy is an important piece of the puzzle that would need to be considered. Transmission costs within the system could increase just based upon the mechanics and the structure of the system. The downtown financial district area is on what is called a network system that is very expensive to maintain and has unique operational requirements associated with it. However, to offset that, you have a very compact and distinct service area with many users. That, as opposed to the sprawl of the PG&E system and other parts of their territory where you may have vast differences between hookups is a positive economic impact that would lower costs. You have synergy with the services already provided by the Public Utilities Commission. That Commission is providing other related services that fit well with this type of product.

Commissioner Schmeltzer stated, you have brought up the issue of exit fees a couple of times. Is there a discussion of what the relative impact of those exit fees might be or what is being considered by the California PUC as far as the size of those types of exit fees?

Mr. Bell stated, there is some we could probably elaborate a little bit more. But, you have items such as the Department of Water Resources contracts, the payoff of debt for the IOU's. There are any number of components that haven't been established yet. Furthermore, nobody has gotten as far into this process to have those fees established. So, there is a little bit of uncertainty involved with regard to those fees. They certainly can be identified as to what they are and what pieces may or may not apply.

Commissioner Fellman asked, would it be fair to say that on the exit fees it is the goal of PG&E to ensure that customers are indifferent to whether they are PG&E customers or they would be City of San Francisco customers? Should there be some form of aggregation?

Mr. Bell stated, at least that. The same would apply for the State of California that will wish to recover their full cost for power that they purchase since they assumed that role. The pressure there will be intense to see that all of those costs are covered.

Commissioner Fellman asked, so if we assume that the exit fees keep the customers indifferent, would your estimates of pricing advantage still hold true?

Mr. Bell stated those estimates are based on historical relationships and yes, I don't see any reason why that wouldn't apply absent the leveling of those fees. That is the final point, essentially, that the pricing conclusions at this stage are difficult, subject to change. However, there has been historically an advantage for publicly-owned systems in the range of 20 percent.

Again, on reliability, we've indicated no change. I really, probably as we move towards the final report, would change that some. When you assume the local control, you are assuming a greater level of decision-making over the resources that will best suit your needs. The example of that that was discussed earlier was generation and transmission. Obviously, if you exert greater influence over those areas, you can in fact enhance reliability. Or you can choose to simply invest more and have a greater portion of your rate dedicated to reliability. So, that's something that in a municipalization option you would have available. What I am saying is that as a City is in a position to have greater influence over the resources and the investments in infrastructure, it can enhance its reliability. Just by virtue of the fact that you are in that decision-making mode and not totally reliant on others to do it, you can in fact impact your reliability. Then again the greater local-control, which we have already talked about.

With regard to conservation and energy efficiency, San Francisco is already looked upon as a national leader in these areas. But in addition to that, we come back to integrated-planning. Really having the ability to pull together your planning of all resources and projects lends a much greater impact on your future course of action. In addition to what already has been done here, and I think some of these are already in place. You have heard from Mr. Smeloff on the activities that are being undertaken. But, this greater local control can relieve some of those ongoing service concerns.

In conclusion, I think it is important to note that San Francisco is presently at risk. There is limited transmission into city-load centers. There is old, inefficient, and environmentally unfriendly generation within the City, and there is a regulatory structure that subjects the City to price volatility. And if as was mentioned, the locational pricing of transmission goes into effect, the City will even be at greater risk in terms of those fees because it is not a shared cost over a wide region--they are going to be narrowing those regions down. If that happens, an area that is generation and transmission constrained such as San Francisco would be at even greater price risk than it is now. There are advantages clearly that San Francisco has also. The Hetch-Hetchy is clearly a very strong advantage to the citizens of San Francisco. Also, the broad public

support for renewable resources, renewable resource programs, conservation and energy efficiency and local involvement are tremendous strengths that the City enjoys.

Options to consider include ownership, participation, local generation, and power supply markets in several of the existing objectives. That can include increasing local generation. There has been some talk of that. Substituting existing generation by relieving the old out of date inefficient facilities and replacing them with ones that are much more environmentally friendly than the existing resources that are there as well as distributed generation. Putting in smaller scale units at various strategic points within the system that can help relieve transmission and distribution constraints significantly if they are positioned in the right places and serving the retail load.

Also, options to consider are transmission expansion to enhance reliability of the overall system and offset some need for local generation as was pointed out earlier. There is opportunity through greater transmission access to relieve the need for local generation. The other benefit of transmission enhancements is it will relieve these congestion prices. If in fact FERC moves towards locational pricing, having greater transmission resources will result in less congestion and lower prices. Again, options to consider include both forms of aggregation. That becomes more of a policy level decision as to the facilitator role which is a little less risky as opposed to the energy service provider role. Also with community aggregation. If the Migden bill moves forward, that may present some opportunities.

Then finally, providing electric retail services as part of municipalization. That could be anywhere from the smaller spot municipalization that covers very defined geographic areas to more broad service of the full distribution system. Also, efforts to increase conservation, energy efficiency, and renewable resources and the like. That basically concludes the prepared presentation. I would like to again say that this is a continuing work in progress and over the next two to three weeks, we anticipate finalizing the study, but we're continuing to work on it amongst the three firms.

Commissioner Schmeltzer asked, I was wondering if we should talk about receiving comments on this draft in addition to tonight? I think we were hoping to receive written comments until the 26th of June. We are expecting to have the final report out in early July, so that would hopefully give people the opportunity to read the report and submit written comments. Does that seem like a timeframe that would work?

Chairperson Gonzalez stated, I think everybody is in agreement.

Commissioner Fellman stated, what we would also do on our meeting on the 28th, if anyone wanted to submit oral comments, we would take them at that time as well. But written comments would be by the 26th.

Gloria L. Young, Executive Officer stated, that is correct. We would accept written comments up until June 26, 2002 and provide those to the consultants. We will also have copies of where those comments can be mailed at the Front Counter at Room

244. So the comments can either come to me as the Executive Officer or to Monica Fish, the Commission Clerk.

Vice-Chairperson McGoldrick stated, will we have met the requirements of the Sunshine Ordinance regarding those comments? Do those comments have to be part of a package?

Ms. Young stated, as long as the comments are written, we will put them in the packet that you will receive on June 28th. If they are in fact sent to us electronically, we will forward them electronically to the Commissioners and Consultants so that you have them in advance.

Vice-Chairperson McGoldrick asked, since these are comments coming from the public, do we have a 72-hour requirement?

Ms. Young stated, no.

Commissioner Fellman stated, I understand that we will continue working with the Commissioner Task Force directly with the consultants to incorporate the Commissioner's comments as well.

Chairperson Gonzalez asked, Mr. Maynor, I wanted to ask you whether or not in your review of the draft you felt comfortable with its presentation? I know there was some discussion about the form.

Donald Maynor, Esquire stated, it's a first draft. Questions are coming to mind for many of us. It's the first time we've gotten a close look at it. I have a lot of questions that are coming to my mind. I appreciated some of the things that Mike was saying at the end. Particularly the unique risk that San Francisco faces. I think it will be useful for them to build on that part of the report. We will talk about that to our group, and I am sure we will all have some thoughts.

Mr. Ed Smeloff stated, I had not come to make remarks, but if you have questions, I will be glad to answer them. In general, I think this is a very helpful document. In particular, some of the issues related to transmission actually are new to me. I have a better understanding of the wider Bay Area transmission issues and the potential that there is congestion even further out in the grid beyond the Northern San Mateo area that is impacted by our availability to have generation here. The fact is that we do need to have in-city generation, not just to meet the peak demands here in San Francisco, but to decongest the transmission lines further down the peninsula even across the Bay when there is heavy demand within the overall Bay Area.

Chairperson Gonzalez asked, what can you say about the congestion costs that could accrue to a municipality such as San Francisco's in terms of moving towards more local control?

Mr. Smeloff stated, this issue that I think the consultants have brought up about locational marginal pricing is something that we at the PUC have followed very closely. If not implemented correctly, it could have a negative impact on both municipalization, and if you don't have municipalization depending on what the CPUC does could impact electric rates here. Locational pricing is the way that the ISO's work in New Jersey, New England, and New York. There is a good theoretical reason for doing locational pricing because it is more expensive to serve in congested areas, in areas where there is not transmission. From an equity point of view, San Francisco ratepayers did not design the transmission system. The fact that there are shortages, that there are constraints in the transmission system is a historical decision that PG&E made in how it was designed. Now, at this point in time to change the rules of the game and penalize San Francisco ratepayers as something that we have told the ISO governing board and others as patently unfair. The Mayor has written a letter to the chairman of the FERC pointing out this issue. I think the Governor is very much aware that this is an issue that this locational marginal pricing doesn't only impact San Francisco, but impacts some other load pockets in the state as well, San Diego being the most notable one, but areas, like Humboldt County and Fresno. On a separate venue apart from municipalization, we need to be very aggressive as a city in opposing this quick movement to locational pricing.

Chairperson Gonzalez stated, the other thing I wanted to ask you about related to the remarks about aggregation, specifically the models, the "Aqua" versus the ABAG model. I know there has been a lot of talk about the City taking on a role as an aggregator. I am wondering which of the models you have in mind?

Mr. Smeloff stated, the model that we are favoring is that the City would be an energy-service provider. It already has the experience of operating the Hetch-Hetchy system, is involved with the ISO in scheduling load to meet the City's municipal load. The real advantage of being an energy service provider is not just entering into contracts with other generators, but to develop our own supply here in San Francisco. In the median term, the real savings that we can achieve through municipal control, and I've said this repeatedly, is the phase out of Potrero and Hunter's Point. These are inefficient plants. They are expensive. They are under these reliability must-run contracts with the ISO. Ratepayers and PG&E are paying about \$75,000,000 a year simply for the availability of those plants to provide reliability. If we can put in energy efficiency and more efficient generation, we can lower the cost of the system and save monies for San Francisco and region-wide. That is a key reason to be an energy service provider rather than simply a facilitator of other energy services providers to come here in the market. You really want to have a long-term commitment to developing resources if you want to green the portfolio and increase reliability. A facilitator really doesn't in my mind enable you to do that.

Chairperson Gonzalez stated, let me ask you this. Do you think it would be a value to explore the model that you are suggesting, this energy service provider in the context of aggregation? Mr. Bell, do you have thoughts on that?

Mr. Bell stated, I think within the context of Mr. Smeloff's comments, there are clearly ongoing activities that would make the energy service provider role one that may be more favorable for the City given the fact that many of those activities are already taking place.

Chairperson Gonzalez stated, the question I had was whether you think that is encompassed in the models that were put forward here today insofar as this is a draft.

Mr. Bell stated, and I believe so in the energy service provider model. We can have some further discussion with Mr. Smeloff as to what current activities are in place so we have a better appreciation for that within that model.

Commissioner Schmeltzer asked, is the model that Mr. Smeloff described or you are referring to as the ABAG model in here? Were there differences in what he put forward from what you think is encompassed?

Mr. Bell stated, no. They are basically the same approach.

Chairperson Gonzalez stated, the reason I see it as something different is just from the model as I see it has the city contracting with the energy services provider. Seeing that that doesn't quite fit in with the notion of the City being the energy service provider or actually having control over that directly without...

Mr. Bell stated, same concept. If I were to go back to that chart, it could be generation was one component. That could be the City's own generation. It doesn't necessarily mean that it has to be contracted with another party. That would clearly fit under that particular model. It could be the City's own resources or other.

Commissioner Fellman asked, were you here when Chairperson Gonzalez was discussing the Hetch-Hetchy system? While you were here and while Mr. Bell was here, I just wanted to remind you to coordinate with Mr. Bell. I don't think we should be replicating what is being done in the SF PUC's plan in this report. But we should be at least able to reference those sections and summarize what's being done. If that is something that can be done within the next few days, that would be great.

Mr. Smeloff stated, I think they understand the nature of the long-term service contracts with the districts. We are in negotiations with both districts trying to eliminate both our risks and our long-term obligations. I am certainly glad to brief as with the City Attorney the members of the Board of Supervisors. I don't think I am in a position to discuss this with consultants since we are in negotiations right now. I can certainly tell them details of the contracts, what the risks of those contracts are, what our obligations to the districts are.

Commissioner Fellman stated, I think what you have just said is sufficient for our report. I wasn't asking for a full briefing. I think Chairperson Gonzalez was concerned about assumptions that were being made where Hetch-Hetchy was out of the picture in terms

of the lower cost power. We can say that there is a path to getting lower cost power in the report.

Commissioner Schmeltzer stated, but that path doesn't have to be outlined in the report.

Mr. Smeloff stated the path is to change the structure of the contracts or to nullify them entirely.

3. Public Comment

Mr. Dennis Mosgofian stated, one of the consultants asked for suggestions as to how to name the new agency. I am going to make a suggestion that it be called the Municipal Water and Power Agency just like it was under Prop F, which was all frankly part of this process. It is really an integrated part, and it would be a mistake to just ignore last year's history. I had a question for one of the consultants based on a transmission issues slide, which talked about planned Bay Area transmission additions that would increase reliability and lower exposure to congestion charges. It was on about the sixth slide and or so. I want to know what the other alternatives are other than the Jefferson-Martin transmission line.

Mr. Barry Flynn, Flynn and Associates stated, there are a number of alternatives, some of them we would say are in the advanced planning stages that affect the transmission into the Bay Area. Just from memory, some of them are like adding a transformer at Metcalfe, at Tesler, and at Tracy substations of 500 to 230 KV transformers. Those are in the advanced planning stages and implementation in some cases. In terms of the long-term alternatives to adding transmission into the Bay Area, they are part of a long-range Bay Area study that is now being completed by PG&E. Now, we're talking about eight to ten years out in order to complete them. Those involve adding additional transmission lines from Moss Landing Power Plant into Metcalfe, adding a new 500 to 230 KV bank near Sunol and bringing additional 500 KB lines into that new Substation near Sunol, building 230 KV from there into Newark. Then in addition to that, there are some alternatives investigating as part of the long-range planning effort to upgrade some of the 115 KV lines that leave Newark Substation and go to Hanes and on to San Mateo to convert those to 230 KV. Those are the projects that are planned for bulk power into the Bay Area per se.

In terms of those more closely related to the transmission system into San Francisco, there were three alternatives that were investigated at Phase 1 in the long-term study. One was the Jefferson Martin 230 KV line. That's from a substation up near the skyline area of the Peninsula into Martin Substation which is just south of San Francisco. A second alternative investigated was to build a new 230 KV underground line, a second one from San Mateo Substation to Martin Substation. A third one would be to bring a 230 KV line across the Bay Bridge or bury it under the Bay or across the Bart tube from the East Bay into a termination at the Potrero Power Plant. Those were the three that were most closely tied to San Francisco. The Jefferson Martin alternative was the one

chosen and the permitting studies had been done. That is the one where there was a transmission line that PG&E is proposing to build, has ISO approval, and would go into the PUC for CPC and in September. The other two alternatives will be investigated as part of the Phase II long-term planning effort to San Francisco. That is just now getting underway. The scope for that study was included as an appendix to that report.

Mr. Mosgofian stated, I have one follow-up question. The line that was proposed that would perhaps need to be buried or be along BART or be on the bridge, was that proposed to help provide collateral circulation to avoid the vulnerability from a seismic event along the Peninsula? Was that an alternative to come across the Bay instead of up the Peninsula?

Mr. Flynn stated, I think it would be wrong to say that just the concern about a seismic event causing a loss of transmission was the main driver behind that particular alternative. Clearly, when the three alternatives that I mentioned were studied, one was from San Mateo to Martin. The other one was from Jefferson to Martin, and the third one was from essentially Moraga Substation to Potrero coming across the Bay. The two alternatives that did not favor coming from San Mateo to Martin, which would be a parallel to everything that is there today. The Jefferson Martin and the East Bay alternative were considered more reliable because they came from different sources. There are a number of reasons why a single event could take out the corridor from San Mateo to Martin. Clearly, an earthquake would be one of those.

Mr. Mosgofian stated, my concern about that particular area was that it would seem to me if the concern for earthquake vulnerability in San Francisco was paramount, then it would make sense to come from a different direction for a transmission line in order to avoid whatever could happen on the Peninsula. That was my thinking, impression I have been given, things I have read, and hearings I have gone to. I had a couple of other comments, and I was hoping that Supervisor Gonzalez would be here to hear them. In the Executive Summary, Report Purpose and Industry Structure, Page ES-1, at the bottom of the page under a bullet called Governance. It says in the last sentence "the addition of new transmission can relieve the need for local generation and aggressive conservation." I take the and to be a but. "And energy efficiency programs can offset the need for transmission, generation, and distribution." I want to raise the question of whether or not the study focuses sufficient description on San Francisco's interest in having local control in a public power utility, such that we don't find ourselves with new transmission lines undercutting our ability to get to renewables and distributed generation as has been proposed in some of the scenarios?

Mr. Mellor stated, we tried to make it very clear that integrated planning is critical and very important to the outcome. We were not intending to say you do one or the other. But really, you look at all of them together and come up with the optimum plan.

Commissioner Schmeltzer stated, that is something that can be clarified between this draft and the next draft.

Mr. Bruce Brugmann, Bay Guardian stated, I am delighted to see this report. We have been pushing for it since 1969 at the Bay Guardian. The key fact is that through all these years, PG&E has done everything they could to keep a report like this even in its limited form from coming to City Hall. You folks are to be congratulated for doing it. Mr. Bell and his group here that came in and talked about municipalization—nothing has happened to them as far as I can tell. They're still there. I think they should be careful when they leave the building though.

This is a historic report and among other things, Mr. Bell and the group have said that PG&E after all these years, after the Raker Act, after the Supreme Court decision, after, after, after. You've heard me make these points before, but it's even more important to make it now. After all of these things, PG&E has left us at terrible risk. Even though we are the only city in the United States of America that's required by law and the United States Supreme Court to have public power, we don't have it. That's what I am getting at here. We have a good report, but it's limited. The report says in several places, without an in-depth analysis, how can all of these pluses and minuses work out in the short term? However, in the long term we're all dead in the long-term. I like the short term. If San Francisco is like other public power communities, it is likely to obtain a net cost advantage in the neighborhood of 20 percent. That's a lot of money. Further in here, they ask for in-depth this and more of that. They mentioned that if we move toward acquisition, PG&E is going to have vehement opposition. This is a key point. The next step. So the question for the consultant and the question for the Commission at this critical juncture after the MUD campaign lost by 500 votes, after we have an introduction today of a new initiative or measure aimed at municipalization, how much more specifics can the consultants give us toward acquisition? The key figures that we need. Or do we need another study? I think we do. Commissioned immediately by LAFCo to move ahead on the very issue that LAFCo was created on. You folks didn't come from spontaneous combustion. You came from a MUD campaign aimed at bringing public power to San Francisco and kicking PG&E out of City Hall. That was the point. That's why you are here. The next step is to either get from the consultants more specifics here to help answer this question...

Chairperson Gonzalez stated, Mr. Brugmann, let me interrupt you. I am with you to a certain extent. I think the reason the LAFCo was created was a unique reality in trying to deal with the citizen MUD issue and some of the requirements. There was a sense that this had to get LAFCo review prior to being able to be placed on the ballot. That is why this Commission got created.

Mr. Brugmann stated, but they were created by the MUD campaign. Otherwise, they wouldn't be here, right?

Chairperson Gonzalez stated, the levels of specificity that I think folks would all like are very difficult to arrive at when you have the kind of volatility and the kind of numerous factors that come into play in existence. I think what the consultants are trying to do in this document are to lay a foundation to some of the considerations and some of the issues that need to be there. I do personally find it very significant when they take a

figure like 20 percent, which they are arriving at from what they're looking at around the state and what happened in other areas. I think that is a significant point.

Mr. Brugmann stated, sure it is significant, but PG&E can knock that out in a one full page ad. A careful analysis of severing the distribution system from the rest of PG&E's system would need to be performed as part of any feasibility study. All of the way through here, they say we need to examine more, we need to get a careful analysis, we need to detail this, we need to detail that. This is a forward.

Chairperson Gonzalez stated, even if the MUD measure had passed and you had MUD directors, what would they have done? They would have convened and started to try to make some of the inquiry that you are saying and that the consultants are acknowledging, I think everyone would acknowledge that you would need before you took the actual step. In terms of the beginning of the process whereby you have a municipality or a water and power authority decide that it's in the municipalities' interest to engage in local control and start to take those steps--I think that's what you are finding in this document.

Mr. Brugmann stated, that is fine, but we need more. This is just a start—that's all it is.

Chairperson Gonzalez stated, well you're never going to be satisfied until we do it.

Mr. Brugmann stated, no, I will be satisfied when you provide a few more specifics. This is an argument for a charter-light. This is not an argument for a charter-heavy. That's what I am getting at. To get to do a charter heavy, to talk about acquisition and not limiting the City from acquisition, you have to have some figures. I have been sitting for thirty-some years now listening to PG&E say, it's costly, you don't have any figures, you don't have this, you don't have that. We have done endless feasibility studies at the Guardian.

Chairperson Gonzalez stated to Mr. Brugmann, when the cost of so much of what we are talking about is dependent upon bankruptcy proceedings and on actions of the state legislature that are going to happen soon, do you really want to send these consultants off to numbers that will be good for a week or two?

Mr. Brugmann stated, not for a week or two. I think this is the best consulting firm in the country for public power. I would like to hear them answer these points and say what specifics they can provide on these points because all of the way through here they talk about a careful analysis, a detailed study. On the next page here, a cost-benefit analysis of this option would quantify this impact.

Vice-Chairperson McGoldrick asked, what page are you on?

Mr. Brugmann stated, pages 4-9, 4-10 in particular because that gets into the "guts" of it. It is not likely that the construction of a parallel system would be acceptable or practical for San Francisco. This option will not be discussed further here. The new

utility would therefore need to purchase and acquire the PG&E distribution system. That's the "guts" of everything. Then it says a careful analysis of severing the acquired distribution system from the rest of PG&E's system would need to be performed as part of any feasibility study. That's the "guts" of this. What we need to find out is what would be involved from the consultant's point of view in getting a credible but preliminary answer to that question. They've done studies like this all over the country.

Chairperson Gonzalez asked, Mr. Bell, do you want to respond to Mr. Brugmann?

Mr. Bell stated, I think that in response to that--at this stage, it is important for City leadership and decision makers to at least make some preliminary determination as to whether or not there is the will and interest to take on something as large as a full municipalization of the entire PG&E distribution system. We've outlined a range of options from smaller aggregation programs to involvement in certain pieces such as generation, transmission, and even pieces of distribution. I can't state strongly enough--to go that route of acquiring the distribution system is a time consuming, costly, and very difficult battle.

Chairperson Gonzalez stated, but it might also be the right decision.

Mr. Bell stated, it very well could be. From the standpoint of quantifying what the impact is, we can make certain assumptions and put the boundaries on the analysis as to what happens if you can escape none of the non by-passable charges. What happens under different scenarios that at least present a picture that gives you the representative range between one side and the other--that can be done. I don't recommend, unless there is a serious will to go down that route, to do so, because it is costly and time-consuming to do it. But certainly, we have the technical expertise to do that.

Vice-Chairperson McGoldrick asked, it was not your understanding that you would be asked to do that or that you had already been asked to do that previously?

Mr. Bell stated, not within this scope and with the amount of time allocated towards this function, no.

Vice-Chairperson McGoldrick asked, and if you were asked to do that, how much longer do you think it would take—a gross amount? We won't hold you to any contractual figure. Time and money?

Mr. Bell stated, probably a period of three to four months and an amount in the range of \$150,000 to \$200,000.

Mr. Mellor stated, I agree with Mr. Bell that there has to be a will if you are going to go that route. This we have seen time and time again. It was mentioned that we have done a lot of these studies. We have done them across the country. The number that are successful you can count on one hand. The trouble is that this is one of the most

decisive things that you can do as far as what's going on in the City. You have to have full commitment to it to make it work. There are two or three stages to this. What you have seen, and I think we've done precisely what was asked in terms of laying out what the policy issues are. We were not asked to do a feasibility study or a pre-feasibility study.

The next step if you wanted to do this would be a pre-feasibility study that is probably in the time and price range that Mr. Bell mentioned. That would not get the job done. That would not be going out and looking along the lines of the southern boundary line of San Francisco where the severance would take place, the lines would have to be reconfigured in doing the engineering studies to see what that is. That would only look at ballpark kinds of numbers, rule of thumb kinds of numbers as to what the system value would be. We know that in any one of these cases, there will be a contest of about a three to one cost. That is if we say that it is going to cost you 100 million dollars to buy it, that is the book value of the system. That is what PG&E is allowed to earn on and a fair value to them for their system. They would come in and say it is three times that. When you start looking at the difference in rates that comes from buying it at 100 million dollars or 300 million dollars, it makes a big difference. When you look at the severance costs, all of those kinds of things, and then you take the uncertainties as to what's going on in the power supply markets, all of those things—you are actually going to have three levels of study. To go in and actually do a condemnation of PG&E facilities would require a detailed engineering study. That would not be done in the price range that Mr. Bell mentioned. What you would get with what Mr. Bell mentioned is something that says, yes, it is enough for us to decide we want to go ahead and do the very detailed study.

Vice-Chairperson McGoldrick asked, Mr. Mellor, would you be surprised if an evaluation of the system were already available with the California PUC?

Mr. Mellor stated, no. In fact, I would be surprised if you couldn't fairly quickly come to the value that is on PG&E's books that they are allowed to earn a rate of return on the distribution system. I believe that's readily available. The point is that PG&E will come back and say, that is not what we are going to sell it for.

Vice-Chairperson McGoldrick asked, if you were to request the information from the California Public Utilities Commission, how difficult would it be for them to turn it over to you?

Mr. Mellor stated, they wouldn't have it in quite the same way that you would want. The boundaries wouldn't be the same. We would have to do and we have done this many times before is we would look at a number of factors. We would make estimates based on the FERC Form 1 reports that PG&E has, the PUC data. We can come to a pretty good estimate probably plus or minus 20 percent as to what the book value of the system is in San Francisco. Maybe even closer than that because of the peninsula nature of San Francisco. Severance, not so. There is nothing at the PUC that would say what the severance cost would be along your southern boundary. But, the study

can be done. I think Mike's right, three to four months in that price range. But that would not be sufficient for you to go in and start a condemnation proceeding. You need more than that.

Commissioner Schmeltzer stated, going back to what we have in the report now. One of the things that we did discuss in some of these meetings previously was turning this document into a roadmap for how to pursue these different options. What we have in here in the parts that I have read are the policy issues laid out with the pros and cons of each of those positions, and there is some text in some of the sections that talks about what else may need to be done. I think it would be helpful to have under each of those pro and con sections a "next steps if you wanted to pursue those options" that would lay out what else you would need to do, what the costs and timeframes might be that were involved in each of those steps. For example in this one, some of the items that Mr. Brugmann pointed out that are in the text proceeding the pros and cons could be pulled out underneath as a start of, if you wanted to move to this model, what steps would be taken and what type of commitment would be in terms of time and money?

Mr. Mellor stated, I understand the question. I think we can get part way there, whether we can get all of the way there—because there are a lot of options. Some of these lend themselves to that kind of next step and others don't, because they are really policy questions that you guys have to look at. As to this item, it would be relatively easy to put together a next step discussion.

Commissioner Schmeltzer stated, and I think for a number of the items, we could do that.

Mr. Mellor stated, I think that is right. I would have to go back and see, but there are some areas in terms to the extent that you take on generation, transmission, whether you start owning it or not. Those kinds of things are almost more policy, but they come down to you've got to look at it and do an economic evaluation as to whether you want to get into that business, and is that the core business or business that you want to be in? In my mind, a lot of this is really strategic planning and it's deciding what business we want to be in. There are a lot of entities that have looked at it and have said, we are in the waste water business. If we get in the power business, it's going to mean three times as much revenue, three times as much customer care. It is going to change our core business, and we don't want to do that. That's a strategic issue as to what business you want to be in, but I think is an important issue. Then if you decide, yes, we can take on that business, then look at the economics of each sector of it and decide, do I want to be transmission, do I just want to be distribution? One of the options in front of you is be in the generation and transmission business and only use that to support distribution over PG&E lines. We can help with that next set of discussion.

Chairperson Gonzalez asked, if Mr. Maynor, Mr. Brugmann or any other member of the public wanted to make any comments on this discussion item?

Mr. Brugmann stated, the consultants mentioned political will. I think that was demonstrated last year in which the City came within 500 votes of voting, and there is considerable doubt about the ballots that were counted and the election lids floating in the bay or one thing or another. I think the will is here. What PG&E beat us on among other things was that we do not have any kind of expert study beyond what the Bay Guardian had done. Our study was more conservative than the expert's study. I think a very valuable part of this whole mix is to move ahead with the next step.

Chairperson Gonzalez stated, I think there were a lot of folks that were uncertain as to what alternatives the City had and the debate around municipalization was not overly informed in many respects. I think that one thing that I like about this draft document is that it really breaks down some of the different options in a very matter of fact way, discusses municipalization, and local control among other options. It kind of demystifies it in large part and shows that it has been successful elsewhere and shows that there is nothing odd or unusual about a City looking into this and exploring it etc. I think that's one of the things that made that proposal that went to the voters vulnerable which was that there were a lot of scare tactics that made people think that anybody that believed in local control, that something was wrong.

Mr. Brugmann stated, I understand. Those are good points. Too costly, too risky. Now, in the consultant's report they say that the biggest risk of municipalization is the likelihood of contested acquisition of PG&E's distribution facilities. Due to geographic circumstances, severance, often a significant part of acquisition cost, would be relatively small for San Francisco. Let's quantify that. Relatively small for San Francisco. The city is at risk. PG&E is in bankruptcy. Enron is on the run. Anderson has been put out of business. This is a serious issue here. We now have consultants that are working for us and working for this group. Let's just get a little more information.

Chairperson Gonzalez stated, I think from a document like this, and this speaks to political will, you could create a Municipal Water and Power Authority that had a directive to work to pursue local control. As part of trying to empower that agency, being it an elected one or an appointed one, would come the responsibility of flushing out some of those unknowns. The point is that from a political point of view, looking at the different options, and saying we're comfortable that we want to pursue this one and let's start doing it. I think that's what this document provides. I think you know that I'm not of the opinion that I'm going to be satisfied with public power in San Francisco if the City just has some aggregator role.

Mr. Brugmann stated, without doing this you are allowing the Charter Amendment or initiative measure to go forward with a limitation on acquisition because there aren't the kind of specifics and arguments in here that would help do that. We could go on. But I just think you ought to do the next step, get the consultants to flush this out, and provide more information.

Mr. Charles Kalish asked, did I misunderstand this? (Question addressed to Mr. Mellor or Mr. Bell) You didn't say that if all of the exit fees are invoked, that that would eliminate the 20 percent advantage that you get in reducing prices?

Mr. Mellor stated, I am not sure which of us made the statement. Let me just put those exit fees into perspective. They probably range from 2 ½ to 4 cents a kilowatt hour. In nine or ten years, those exits fees will be gone. Short- and long-term are really important here. I would say at the outset, it will be very hard to get anything close to 20 percent savings as long as those exit fees have to be paid. Right at the outset, the cost of acquisition and those things are going to work against you. The fact is the acquisition would have to be done using taxable debt, not tax-exempt debt. That changes the perspective a little bit. What we said was given the experience of other public agencies in the long-term, and I am thinking out twenty years, you might be able to expect some kind of savings around 20 percent. That's beyond the exit fee period. I think in the short-term you would not be able to get a twenty-percent savings or anything close to it.

Mr. Kalish stated, we're having an internal discussion about including distribution into this Charter amendment. Some of us have read your report and felt that what you said was that owning distribution is key to this whole equation of achieving 20 to 25 percent or more savings for the rate payers.

Mr. Mellor stated, without owning the distribution system you don't have the opportunities for the integrated planning, for the integration of the generation, transmission, distribution, conservation, renewable resources, all of those things. So I think owning the distribution system is key to being successful in getting those integrated benefits. I don't think you can get 20 percent savings with regard to power supply costs through any of the aggregation approaches. Ultimately, to get to 20 percent, I think you would have to own a distribution system. But, what I don't want to do is preclude the City from doing some of the other things because I think that there are some real values that can come from taking roles in generation and transmission and providing energy services to the San Francisco residents including getting additional value out of Hetch-Hetchy. All of those things kind of come together, but I don't want to go quite as far as Mr. Kalish has said.

Chairperson Gonzalez stated to Mr. Kalish, I think when we are talking about a specific measure and how it relates to distribution in the measure that might go to the voters, I just want to say that you can always build in a certain level of security or comfort among the voters insofar as an understanding that a Power Authority or what have you has a charge to go try to implement a particular thing subject to the kind of cost benefit analysis specificity that you are hearing about. You can build that in. I think the previous measure had that to a certain degree. Certainly, you can also build it in by requiring not only the Water and Power Authority to approve that action, but you could say the vote of the City Council or the Board of Supervisors to add that level. It is not going to happen until these steps are taken. I wanted Mr. Maynor to address the issue of some of the public comment regarding approach.

Mr. Maynor stated, there are a couple of points. One is that every City has a right to be a municipal utility. You don't have to do anything special to become a municipal utility. And once they do, they have the right under the Constitution to take over the distribution system. San Francisco, I understand has some Charter restrictions on financing that is a problem. But as far as when you form a municipal utility, you have the inherent power to go ahead and condemn and take over the distribution system. It's a question of whether it makes economic sense or not. I have had a lot of experience condemning PG&E property over the years, primarily streetlights. I have probably condemned most of the streetlights in Northern California. I have had a lot of experience dealing with their valuations.

One thing that I would warn you is that and I agree with your analysis that there is a historic cost. We always contend that is the price you should pay. Then there is what's called a reproduction cost new less depreciation. The last couple of trials that I was involved in, PG&E got very clever and they came up with some new theories. It generates some very high numbers. The problem is when the public is hearing these numbers, they don't know what's a reasonable number and what's not. I'm not sure that the number that you will see is the one that is three times the historic cost. It may be something dramatically higher and it may sound as if the acquisition of a distribution system is just out of the question. When in fact, that may not be a reasonable number. I caution that when you throw out numbers, it makes an easy target for the opposition to say, the City forgot to do this analysis and they are way off. They will bankrupt the City. It happens in many places around the country and I think R. W. Beck can attest to that. I think that is the reluctance of throwing out numbers on distribution systems. We had hoped initially in the process was to identify the unique risks that San Francisco may have faced in the future as well as some of the opportunities to do some things about those risks. By going through that initial process, you could decide whether you wanted to form a vehicle to analyze the economics that some might want to do, and that is to take over the distribution system. Those were the comments I wanted to share with you.

Mr. Kalish stated, you said that building our own distribution was not viable and would not be discussed further. I ask you to examine it further in this study to whatever degree this type of study allows because one of the things that we're talking about is in fact doing that. An idea that comes from one of the people that works at the PUC is look, you are going to be opening up the ground to put in water pipes and sewer pipes to fix those. Let's put a conduit in there and maybe even put pipes for gas, cable, electricity, and get the show on the road. That would completely eliminate the need to take over this antiquated and really what many people say is a useless distribution system. Would that be possible to add that to the study?

Mr. Mellor stated, that really moves from the discussion of the alternatives available to you to the economic evaluation that we haven't done in any other part of this study, and so I wouldn't propose that you do that. We can easily say that the City may want to reconsider this option and we can not throw it out totally. But let me tell you that I think

that building a parallel distribution system particularly where the customer has a choice as to which system they are going to buy from, which is the kind of thing that they do in places like Lubbock, Texas. They call it head to head competition and the customer has a choice, and they can bounce back and forth from Distribution Company A to Distribution Company B. It's going on right now in the city of Oakdale in California. It's going on in parts of Modesto Irrigation and Merced Irrigation District territories. Building parallel systems means that you have twice as much investment in distribution systems for the same amount of revenue and sales. Generally, my view is that it is poor public policy. Now, to the extent that you have a system that has to be rebuilt anyway, that would be very different.

Chairperson Gonzalez stated, take the comment you just said. If that's something that is a starting point and if it's a premise that we can work from, which is that maybe you have a system that's old. Why wouldn't you want to consider what Mr. Kalish is suggesting particularly in the area of network distribution that we are talking about and downtown that Mr. Bell was talking about.

Mr. Mellor stated, I think that would be an extremely expensive system to replace. We did offer the alternative of spot municipalization. That would be the same thing. You could not afford to go through the whole City and replace the entire distribution system. I would just tell you it would be cost prohibitive. However, if there were places where the system would have to be replaced anyway, then you could look at that as a spot municipalization and approach it in that fashion.

Chairperson Gonzalez stated, listen to what Mr. Kalish is saying. He is saying that there may be other things going on in the City that may lend itself to an opportunity.

Mr. Mellor stated, that again would fit the spot municipalization. If you have a specific area where you are going in and replacing all of the water and sewer pipes...

Chairperson Gonzalez stated, I think it might be helpful in the area that you discussed, the point Mr. Kalish raised, that perhaps you make reference to spot municipalization as opposed to laying an entire network, so to speak.

Mr. Mellor stated, I think we can expand the concept of spot municipalization. But keep in mind that let's say you are replacing a four-mile section of pipeline and you go in and put your distribution system in there, you still have to interconnect with the PG&E distribution system to make it work.

Chairperson Gonzalez stated, I am with you there. But certainly, on some of these alternatives you say that it is a policy matter or public policy decision. I think that in certain cases like the point you are making right now, it is helpful to say that this is the kind of thing that either the municipality decides or the SF PUC or the SF Muni.

Mr. Mellor stated, and we can do that. What we were trying to do is to get to those options which had the greatest likelihood of success. So, we were not trying to carry

things forward that we thought would have a lesser chance of success. We can certainly change the language to open up that option a little bit, but I would suggest you study it very carefully financially before you move forward with it.

Commissioner Fellman stated, I just wanted to emphasize that the purpose of this report was to lay out the options, to have a fuller discussion on some options that you may have concluded were not probable of success. It would be useful to expand that, but we have to recognize what the limits are of our report and that the focus is the discussion of the options. Expanding them would be helpful and adding the next steps is helpful. I think that's where we need to stop and then go to the next steps.

Mr. Bell stated, I would just like to say that this is where the discussion and input is quite valuable. We made a pretty strong statement there with regard to this issue thinking that you are overbuilding the entire city of San Francisco. The point that is being raised here is a good and valid one is that there may be other alternatives particularly in instances where you are already involved in other work and other projects that you could systematically do other things. I think that we can very easily incorporate that into the work product.

Mr. Kalish stated, the last question that I have is about the public purpose programs. I may have missed it in the reports. It seems like public purpose programs the way you presented it are much more effective under the SF Muni model. You just said that PG&E is regulated by the CPUC as far as their public purpose programs. I was wondering if you could just flush that out more and tell us what we don't get from PG&E as a result of that.

Mr. Bell stated, what winds up happening under the existing public purpose programs is that the Energy Commission and the Public Utilities Commission determine basically on a statewide basis what programs are appropriate across the various service areas of the investor-owned utilities. Compare and contrast that to a local utility that looks within their community and says, we have a need for low-income rate assistance, or we have a specific desire for renewable resources for this particular area. Those decisions are made with the local community in mind. Also, certain public power systems, I will use SMUD as an example, go beyond what is required by the State Commissions. They, simply because of their rate payer's interest and desires choose to go and offer programs and services beyond those that are offered in that area. That's been used as a competitive advantage by the locally owned systems and as a good relations tool within their own service territories.

Mr. Ross Mirkarimi stated, I would like to express my appreciation and congratulations to this body for commissioning this study with R. W. Beck and would like to extend that to R. W. Beck. I spent some time over the weekend familiarizing myself with the study. I can assure you that I wish I had this in our campaign and our endeavors for public power last year. In many ways, I think it provides the validation and the armor in order to advance our thesis that San Francisco's pursuit for local self-reliance, public control of our electricity infrastructure is the right pursuit, one that is banked on the tried and

true experience of hundreds of municipalities around the country and one that speaks loud and clear to the citizens of San Francisco that it's now time to make our case effectively at the ballot for the upcoming election.

I remind this body that we are dictated by a clock, and that clock is not necessarily just public policy, but it is a concurrent process that right now is exploring what avenues we should present to the voters for the November ballot. This is a tight timeline with over several weeks remaining at most. There is a concurrent process right now as all of you I am sure know where we are developing which path to take in presenting what option it is we want to present to the voters. This has a lot of technical ramifications and consequences. I think some of those consequences and ramifications have been characterized in a number of versions such as a fundamentalist version of public power versus public power light or maybe some sort of pragmatic sort of compromise that is berthed out of the many advocates who have come together to help shape this particular document. LAFCo can help set a very strong position or help provide cues to what happens politically in the same edifice here in City Hall by suggesting that if we lead with a whatever version the kind of measure we put on the ballot, then let us bolster and underscore that particular version that appears to the Board with all the proper elements that support our supposition that we can stand by our claim that San Francisco is primed and ready to convert to a municipal utility. What I am saying is that I can already anticipate by reading the Beck report some of the arguments that PG&E will wage against us. This was a vulnerable area that we experienced last year because we did not benefit from such a report at that particular time. I think that this is a very good first step. It is a first step that should be followed upon by this body within the scope of the timeline that remains between now and the election and not losing site of the political consequences that we're having to address when we're not in this particular body, but when we are in City Hall discussing this issue.

Vice-Chairperson McGoldrick asked Mr. Mellor or Bell, you talk about there being other cases across the country and I see that in your report that you are dealing with specifics like the need for a new customer care system, things like that. What's been the experience of other jurisdictions that have municipalized in terms of retaining the workforce that was in place when the utility provider would have previously been in the private sector and then municipalization occurred? That was certainly one of the issues that came up in the campaign last year regarding one of the unions. The Electrical Workers Union was fearful and they weren't sure what to think about the future. What kind of experiences have you seen?

Mr. Mellor stated, typically the union employees like the International Brotherhood of Electric Workers are paid almost exactly the same amount throughout California, whether it is public or private. So, the salaries and compensation are about the same. Typically, publicly-owned utility would agree at the outset to take on the employees of the investor-owned utility. You would just transfer. We would almost always see the unions oppose it, but we're not quite sure why, because we don't think they are hurt by it. So I think that in going through the process, it would be relatively easy. I think the

employees could be dealt with in a way that they would come out just as well under public ownership as private ownership.

Vice-Chairperson McGoldrick stated, I am really pleased that you are able to give us that fact. Could you give us an example or two of where that may have occurred?

Mr. Mellor stated, there haven't been a lot of these. In the Sacramento Municipal Utility District acquisition, that occurred. The employees came over from PG&E. A recent change up in the northern part of California—that occurred there.

Vice-Chairperson McGoldrick asked, where was that?

Mr. Mellor stated, the part of Northern California that was sold off to something called Norcal and that was again a transfer of employees. In fact, I don't know of any one of these where people have brought in their own employees. You would have an opportunity, as an example, if the PUC were the body that took this over. They would have some infrastructure already in place, and you would use that infrastructure. But, they would need to supplement that infrastructure. So, I don't think that employees are going to be disadvantaged by this kind of action.

Vice-Chairperson McGoldrick asked, and you don't know of any cases where there has been any kind of serious union busting or wholesale dismissal of employees?

Mr. Mellor stated, I have never heard of one. But again, this is something that doesn't happen often.

Vice-Chairperson McGoldrick stated, you have never heard of a single one. I appreciate it.

Mr. Mark Stout stated, congratulations to the LAFCo on commissioning this study as well as to R. W. Beck, Henwood, and Flynn for pulling this together as we have heard several times tonight. Having the policy options laid out comprehensively with pros and cons for each hopefully will go a long way towards informing the political debate that occurs at the Board of Supervisors about what kind of initiative we're going to see on the November ballot. It seems that whatever comes out of that debate, whatever we see heading towards the November ballot, there might be a lot of value in using this report as a springboard towards having a more flushed out, quantitative feasibility study. The only actual comment that I had on this draft was that it would be nice if whatever model is in front of the Board of Supervisors in terms of governance, in terms of is it called the Public Utilities Commission, the SFPUC, that it would be good if that actual model were in here. It seems to be a hybrid of a couple of options as far as governance and whether or not it is a separate agency or the PUC itself.

Mr. Mellor stated, we wrestled with what you call it. As I said at the outset, we will look for something that works. I have a little bit of trouble with the Water and Power in the name because it suggests that it has to be a combination of water and power. I don't

think you need that. I prefer to see a name that doesn't have water in it. But, if what you want to see is a model that is based on reconfiguring the PUC and calling it Water and Power, that works just fine.

Chairperson Gonzalez stated, I think the other point that Mr. Stout was making was a concern that in that conglomeration whatever you call it, you may have really different entities or that the nuances between those entities that you are including in one umbrella might not allow you to show some of the relative advantages of one or the other.

Mr. Mellor stated, one of the only differences between the two is an appointed governing body versus an elected governing body or one that is more broadly appointed such as what is in the current draft. It would be a lot easier to write this report if we only had two options, PG&E versus a public agency, and we knew what that public agency was. Having to distinguish, and we were following your direction when we did it to have either a new municipal utility or the SF PUC. If we were able at any stage in this draft to say there's only one municipal option, it would simplify the readability of this report. We could go back and maybe clarify it in a way that would help. If you want to give us that direction, that would be fine at least with me.

Mr. Bell stated, what I was going to suggest in the course over the next couple of weeks as we continue the work on the report that we work with the Task Force on that particular issue. I think it clearly needs to be addressed and fortunately we have the time over the next couple of weeks to do so.

Commissioner Fellman stated, with respect to what Mr. Stout commented on. I believe, at least the way I heard the concern is specifically addressed to, are we looking at in this report the type of entity that is being discussed in the ballot measure? Is that correct? I think this is chicken and egg kind of problem because the report was going forward and then a concurrent process brought a merged ballot measure or a proposal for a ballot measure. I think what we can do is incorporate what is being proposed into the kinds of structures, but there's really a limitation on how much you can do the circle. I think what we want to talk about is the types of formations or entities that we have already identified and then maybe reorganize it slightly. But really I think we have to stick with what's in there in terms of the discussion and the ballot measure. If we need to do a specific analysis on that, then that would be a separate specific piece of work.

Mr. Bell stated, we will do the best that we can at this point in time recognizing that this may evolve as time and public input presents itself moving forward.

Commissioner Fellman stated, and the question that we have looked at is the status quo versus what would happen with some form of municipal entity and then dividing it, as Ken has mentioned, between do we have an all out municipal entity and we will look at what we call that. It's sort of a distribution owner versus a reformed PUC. I think that's really where we will go. If the Commission will allow us, the Task Force can work on honing that concept.

Mr. Bell stated, in some sense that's why you may recall in one of those slides where we expressed some concern about the new utility model might be more preferable to the PUC. Obviously, since the time that has been drafted, there have already been moves to make some changes in that regard. I think the suggestion is a good one, and we can work on that particular issue as we finalize that report.

Mr. Mirkarimi stated, I just want to follow up on my feel-good comments before with the suggestion of let's not lose sight of the opportunity of pursuing a feasibility study especially about acquisition. I kid you not. I am extremely sensitive to the question of the economics of what may be presented to us by Beck, which is a roll of the dice. Considering that if the economics does not show in our favor, that is not an argument that I would be happy about that would fall in the hands of our potential opposition. I think though that they have set the stage now with a good first step that (unclear) the question for this body to push for feasibility in determining what would it be before San Francisco's best option in either owning the system up front as Prop F had suggested last November or through its incremental stages. That is an unknown at this time.

Chairperson Gonzalez stated, it seems what I find very interesting about the role of the LAFCo is that this whole business of being an agency that's willing to inquire into the formation of a new agency in many ways needs direction. It either needs direction from the legislative branch in the municipality that says gee, now that we see the options that you have, we want to give you a directive to continue pursuing exploring this particular thing because we are making a policy decision that that is what we want explored. Or, from the electorate. Because the electorate passes let's say a measure which would be a Water and Power Authority, let's say, where in conjunction with that new authority, we undertake the responsibility of doing that. The part that I am pretty confident about that isn't included in that is the creation of that new authority or reconfiguration of an existing authority can have within it a charge that allows it to continue the inquiry into those other areas. I wouldn't be that excited about going to the voters and waging a campaign and all of that simply to have questions about local control left out under some theory that it has never been studied.

Mr. Mirkarimi stated, no let's not go into a campaign unprotected. We have barreled through that experience last November, and we have lessons learned from that regard. We are trying to shepherd this process so that the legislative here within the same building is sending signals to LAFCo to suggest the direction to go. If for some reason, those signals become blurred, then lo and behold us from the electorate and advocates are also here to help fortify that particular message. But, timing is everything. The timing that is before this particular body presents opportunity that has now been ignited by the Beck report. It gives in my opinion political ammunition because despite what I thought was a somewhat academic presentation on the pros and cons, almost nonpartisan, reading that report, the propensity stands pretty clear that San Francisco is poised to go for public power. We have to decide if this particular juncture at what strength the public power do we want to move forward on. If in fact, we go for as some have said an incremental approach, okay. So we may be able to bite that or may not,

but let's in order to prepare for that with the economics and the feasibility to support that claim because I anticipate a dis-information campaign that is before us. If we go for the full strength, that too has to be followed up with that much more analysis.

Mr. Mosgofian stated, in listening to the presentation, I think that there was only one place I found in the Executive Summary where it is spelled out. I have several specific and distinct points to make. The first point that I want to make is that when there were discussions on the twenty or twenty-five percent savings that would eventually be afforded to folks and businesses in San Francisco, it seemed a little cloudy to me in the presentations as to where that money was coming from.

Chairperson Gonzalez asked, Mr. Mosgofian, would you submit these thoughts in writing?

Mr. Mosgofian stated, I will but since there were these discussions, I would like to make my comments very brief. It's on a page without a number on the bottom. It says "lower cost of distribution due to PG&E burden of thirty percent for combined taxes and profits." The point that I want to make is that the initial savings, the savings that we can be assured that will go in the public direction and that tells us that we are right is that we don't have a profit problem, we don't have a profit goal, and we don't have profits to worry about in a public entity. That wasn't really focused on either in the report that I read or in the discussions here. They only talked about the financing burden, the cost of financing, the taxes, and the lack of tax-exempt status. It seems to me that the biggest part of that even if you were to take 25 or 30 percent, is you are looking at least at a 14 percent profit for PG&E plus an extraordinary level of executive salaries. The next point that I thought was really well made was, I think it was made by Mr. Bell. SMUD and other public entities go way beyond what is required in taking care of their own community, which leads then to the question of governance and how do you assure for accountability to your community? It seems to me that point should be emphasized in the report. How will San Francisco be assured that there is accountability to those who are being governed by the Board of Directors or whoever it is? Finally, one last point, if there is no AB 117, and I am fairly convinced there will be no AB 117 this year and therefore, no community aggregation this year--how does the report then suggest that San Francisco would be best served in terms of power and public power going forward if it can't count on the presumption of community aggregation?

Chairperson Gonzalez stated those are all good points. Mr. Bell, could we address those points in the report?

Mr. Bell stated, I believe the first two points we've discussed and will incorporate in the final draft. With regard to AB 117, we really believe that some form of aggregation will come about in time. It may not be that particular bill. The provisions of that bill and the community choice and the opt-out provisions would make it much easier to establish that type of a program, but the fact remains that there are substantial interests that are influencing the legislature to reinstate aggregation in one form or another. It may not

be AB 117 that does it, but it is likely to happen in time in one form or another. That is why we separated the AB 117 discussion out, because that is a unique bill that is out there. It would provide certain benefits if it were passed.

No further Public Comment

Public Comment closed.

Ms. Young stated the next meeting date is June 28th. At that time we will be talking about the Draft Plan, the next steps, and also we will be talking about the community outreach issue. There are a number of continued items from the previous meeting.

Chairperson Gonzalez stated, gentlemen, I would like to thank you for the hard work on the Draft. Notwithstanding some of the criticism, tonight you heard a lot of praise, and I think it was all well deserved.

4. Adjournment

The meeting adjourned at 9:51 p.m.

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AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

Special Meeting
Friday, June 28, 2002, 2:00 p.m.
City Hall, Room 263

Chairperson: Commissioner Gonzalez; Vice Chairperson: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall, and Schmeltzer
Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call
2. Approval of the Minutes for the June 7, 2002 Commission Meeting (Action Item).
3. Discussion and Action regarding Outside Legal Counsel versus City Attorney's Office support to the San Francisco Local Agency Formation Commission (SF LAFCo).
4. Discussion and Action regarding Public Outreach for the Energy Consultant Study and Possible Community Meetings.
5. Report by Commissioner Ammiano regarding the public power authority measure (Continued from the June 7, 2002 Meeting).
6. Discussion regarding SF LAFCo's Future Work Plan (Continued from the June 7, 2002 Meeting).
7. Discussion regarding the Draft Energy Services Study.

8. Future Agenda Items.
9. Public Comment on Items not on the Agenda.
10. Adjournment.

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee Clerk of LAFCo, San Francisco Board of Supervisors, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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Public Comment and Review Period

San Francisco Local Agency Formation Commission Draft Energy Services Study

Beginning June 14, 2002, the San Francisco Local Agency Formation Commission will circulate and make available for public review and comment the "Draft Energy Services Study" prepared by R.W. Beck.

The public is invited to appear at the public hearings to be held on June 17, 2002 and June 28, 2002. Written comments should be submitted to Gloria Young or Monica Fish at the address below by June 26, 2002. In addition oral or written comments may be submitted at the public hearing on June 17, 2002, or June 28, 2002.

We appreciate and encourage public comment and debate on the issues discussed in the report.

If you have any questions or need additional information please contact either:

Gloria Young
Executive Officer
SF LAFCO
1 Dr. Carlton B. Goodlett Place Room 244
San Francisco, CA 94102
Email: Gloria.L.Young@sfgov.org
Phone: (415) 554-5184
Fax: (415) 554-5163

DOCUMENTS DEPT.

Monica Fish
Commission Clerk to SF LAFCo
1 Dr. Carlton B. Goodlett Place Room 244
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San Francisco Local Agency Formation Commission

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MINUTES

Special Meeting

Friday, June 28, 2002, 2:00 p.m.
City Hall, Room 263

Chairperson: Commissioner Gonzalez; Vice Chairperson: Commissioner McGoldrick

Members: Commissioners Ammiano, Hall and Schmeltzer

Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chairperson Gonzalez at 2:15 p.m.

Members Present: Chairperson Gonzalez, Vice-Chairperson McGoldrick;
Commissioners Ammiano, Hall, and Fellman (noted present at 2:58 p.m.).

Members Absent: Commissioner Schmeltzer

2. Approval of the Minutes of the Commission Meeting of June 7, 2002 (Action Item).

No Public Comment.

Commissioner Hall moved to approve the minutes; Vice-Chairperson McGoldrick seconded. No objection. Minutes unanimously approved.

3. Discussion and Action regarding Outside Legal Counsel versus City Attorney's Office support to the San Francisco Local Agency Formation Commission (SF LAFCo).

Theresa Mueller, Deputy City Attorney, City Attorney's Office stated, as you know, the City Attorney's Office would be happy to represent the LAFCo. You have a letter that the City Attorney sent you last month, and it sets out what we believe would be necessary parameters for that. Once we know what you wanted us to do, we could develop a transition plan, we could work with your existing attorneys to make sure that you are well represented in any transition, and we could provide you with a budget once we knew what you had in mind. It is not entirely clear to us now exactly what you anticipate the LAFCo doing going forward so it's really hard to say what kind of budget would be required.

Chairperson Gonzalez stated, I think that's a fair point and thank you for coming and expressing that. My own sense is that once we have the finalized Energy Services Study, there probably will be some discussion among the members of the LAFCo about what the next steps would be. It might be useful if you had a preliminary meeting with Ms. Young and our current counsel in anticipation of what that might look like. I know that you can't take into account all the possibilities, but you could certainly have a preliminary discussion. That way as we make our decisions what path we might want to take after we receive the Final Study, we can be informed of some of the things to keep in mind related to the relationship with counsel.

Vice-Chairperson McGoldrick stated that this issue was discussed at the last LAFCo meeting.

Ms. Mueller stated, we read the transcript of your last meeting, and I think that sounds fine. We are happy to do that.

Public Comment

Mr. Ow stated, two years ago when LAFCo tried to put forth an initiative for the people to vote on, the City Attorney opposed it all the way. We are going to have a public power initiative in the coming November election. I suggest that you retain outside counsel until the people vote up or down on public power. There is a potential conflict of interest between the PUC and this LAFCo. If this will be passed, PUC will be out of existence, so I urge you to consider retaining your own counsel, so that your own counsel will do the best they can with loyalty to this Commission. We just heard the City Attorney say that the City Attorney will consider it. That means there will be a negotiation. The City Attorney representing this Committee all the way is in doubt.

No further public comment.

Public comment closed.

Chairperson Gonzalez stated, I don't think we need to say anything more on this item and that everyone is in agreement.

4. Discussion and Action regarding Public Outreach for the Energy Consultant Study and Possible Community Meetings.

Gloria L. Young, Executive Officer stated, through the Chair to the Committee, that did in fact indicate as we were going through the process of reviewing the Draft Energy Study, that there was discussion about the possibility of having outreach into the neighborhoods to discuss the Draft Energy Study. You asked that I get some cost estimates from the consultants. We've been told by Mike Bell, R. W. Beck, that the cost would be \$216.00 to \$259.00 per hour and if you needed our legal counsel there, it would be their hourly cost. I would suggest that we continue to have the hearings at this facility as opposed to having them outside in the community, but that we do a good job of outreach in our outreach newspapers and other possible advertisement to let folks know that we are discussing the Energy Plan. The concern that I have after discussing this with Ed Smeloff is that the outreach that they did for the PUC Energy Draft did not produce a great deal of public participation in the community, but the cost for us having consultants might be steep for such a process. Unless, you wanted to have maybe one or two. But if we wanted to do one for each district or have several, it could be costly.

Mr. Mike Bell, Client Services Director, R. W. Beck stated, what we have done in some other cases is simply just be available should there be specific meetings where the consultants are required or requested. We're open to whatever would work best for the City in this regard. Sometimes clients hold meetings without the consultants present in smaller groups, and sometimes they will have fewer meetings with the consultants present. We stand ready whatever your desire is.

Chairperson Gonzalez stated, I don't think this is a decision that we have to make now. As long as all the parties are giving it some thought, I can't imagine that we wouldn't have some kind of public outreach with the findings.

Vice-Chairperson McGoldrick stated, that pretty much echoes what I raised at the last meeting and what our Executive Officer just reiterated again. It is the fact that we should be very careful how we spend our money. PUC spent a lot of money and didn't get many people out there recently for the Water Bond meetings. Four people from the public and five PUC staff turned out. I think there are better ways to do it, and we can learn from this too for not just this Commission but in fact for another venue, the Board of Supervisors where we also wear the other hat. How we might do it in some way with the lists that we have, the mailings that we can do to meet both the spirit and the letter of any kind of codes or guidelines by using those lists and maybe consulting with other departments. Using the resources we have there are probably four or five departments that do a lot of outreach, and we could

probably name them and ask them if they can send us their lists. That is public property and we can make use of it.

Ms. Young stated, in terms of at least getting feedback for the Final Plan, we could revise the previous notice asking for written comments, send it to a number of departments that have their outreach efforts, and ask them to include it as we include it in ours as well. We have also placed it on the web as you will find out today. We haven't gotten any written comments yet on the Plan, and we did a pretty good outreach as of June 17th when we had the meeting here. I think you can leave it open as there is no need for a decision today.

Vice-Chairperson McGoldrick stated and we can consult later. Some of the departments that are required to do a public outreach and public notification, the Planning Department and the Department of Building Inspection are the first two that come to my mind, and I think they have fairly extensive lists.

Ms. Young stated, most departments because of the inexpensive costs that we use with our outreach advertising will send their non-legal ads or notices to us. That is in the control of the Clerk of the Board's Office. We will in fact send that kind of a notice out as a part of our outreach in terms of our next meetings on the Final Plan. We plan to do that as our next outreach effort, and we did the same thing with the first Draft.

Public Comment

No public comment.

Public comment closed.

Chairperson Gonzalez stated I think we could defer action on this item until we have the Study. At that time, we can have Ms. Young re-calendar the item and put together however small a proposal of her thoughts of different ways we can go and the number of meetings in mind. One meeting here in City Hall, three or four meetings, eleven meetings, just different alternatives as Ms. Young sees it.

5. Report by Commissioner Ammiano regarding the public power authority measure (Continued from the June 7, 2002 Meeting).

Commissioner Ammiano stated, there have been a lot of hours and discussion about the drafting of this item. As always, there is some contention that the two issues that we will be dealing with on July 5th at the Rules Committee meeting are the governance issues elected, appointed. Supervisor Gonzalez has some amendments in regard to that. Also, the actual issue of grid acquisition when, where details of that are still to be brokered. Hopefully, we'll come up with a version that will pass muster not only at the Board of Supervisors, but in terms of the voter. Trying to get all of the stakeholders involved in our Board sometimes is an intricate

process. I think you colleagues know that having been involved in drafting legislation and charter amendments. Certainly, labor is an important issue. No surprise that PG&E will come out again to this issue. I had a meeting with them just to share the draft and the ideas so that was I suppose you could say self-evident that that was going to happen. So, we're almost there and hopefully, the process in and around certifying the final version will happen, and we can put the item on the ballot and have a campaign that is successful.

Public Comment

Chairperson Gonzalez stated, I think what Commissioner Ammiano is also trying to communicate is that this item will be heard at the Rules Committee on July 5.

Mr. Hunter Stern, resident of San Francisco and representative of the Local Brotherhood of Electrical Workers, IBW, the union that represents the utility workers here in San Francisco. We would just like to say that we are interested and have been engaged in some discussions with Supervisor Ammiano and look forward to working with the Supervisor and also Supervisor Gonzalez's amendments, we would like to have some discussions around that. We look forward to having a chance to speak more fully on the measure when it comes up in the Rules Committee next week.

Vice-Chairperson McGoldrick asked, were you able to catch our last meeting in which there was a discussion we had with Mr. Mellor from R. W. Beck. The discussion was around this issue. In their studies, they found no municipalization efforts in which any unionized workers had ever been in any way hurt.

Mr. Stern stated, we are interested in continuing to work on the Draft, which we find very favorable in its premise. But of course with some fine tuning, we're interested. We have been involved in two specific takeovers by Municipal Utility Districts, Lassen and Sacramento, in which some of our members chose not to work for the new Municipal Utility District. That was in Sacramento and the other Lassen, in which some did. Our issues are with our membership as a whole, many of whom work in San Francisco, many more who do not.

Vice-Chairperson McGoldrick asked, are you the Local who pulled out of the Labor Council?

Mr. Stern stated, Local 1245.

Vice-Chairperson McGoldrick stated so you had folks who chose not to, but indeed the testimony before us from R. W. Beck was that in their experience, no union workers had ever been disfavored or hurt in any way.

Mr. Stern stated, I think the issues that we have are peculiar to the work environment here in San Francisco as well as where our members live and work and

because of our labor contract with PG&E, and the effect of people who are displaced into locations that may be far from where they live. I think it is reasonable for the Beck group to come to that conclusion in terms of the bottom-line wages and benefits. I'm also certain that that would not be the case with our members, and that is why we have had an interest in this proposal for some time.

Vice-Chairperson McGoldrick asked, what was your concern last time when this was on the ballot?

Mr. Stern stated, the principal concern was that the measure on the ballot last fall was focused only on the acquisition and did not address fully the generation side of the equation, which is in our view the fundamental problem. The City of San Francisco and its residents need a cost-reliable source of electricity and the utility because of deregulation may not any longer be a good source of that. The proposal that was on last November's ballot focused almost exclusively on the takeover of the utility, which as I said before has some adverse effects to our membership.

Vice-Chairperson McGoldrick asked, what are the adverse effects?

Mr. Stern stated, it is a little bit complicated. It does derive in the number of people that work in San Francisco, which are about 1,000 for PG&E and the effect of their displacement into work locations which may be far from where they live. They could end up as far away from here as Bakersfield in the south, and up to the Oregon border in the north. Some people may approve of that, but a majority of them like working and living in this area.

Vice-Chairperson McGoldrick asked, is there some language in your discussions that would be able to satisfy these concerns?

Mr. Stern stated, yes, we have had some discussions with Supervisor Ammiano's office.

Vice-Chairperson McGoldrick stated, I would like to see those concerns addressed. I am the president of a Local myself and have a lot of empathy with the Brotherhood and Sisterhood. I would like to see us resolve it, and I know we have a strong position to wanting to support working brothers and sisters. I think it is very important that those issues be specified and get the language in there that you need.

Mr. Stern stated, and we look forward to arriving at something that is suitable for everyone.

Chairperson Gonzalez stated, I am reading a history book that discusses labor at the early part of the twentieth century, and labor has not been a monolith in this town. There was a story told of how even back then the building trades when unions got together to march in the May Day labor parade, they would assemble in the middle of Market street and essentially march in different directions because they felt such

antagonism toward one another. I don't mean to suggest that that is what 1245 is doing.

Mr. Stern stated, I think it's an interesting and somewhat archaic view of the labor movement given the time, but not necessarily inappropriate on any one issue. What we've tried to do in the last eighteen months is to educate primarily. Because we represent not only the utility workers here in San Francisco which are PG&E employees, but utility workers in public agencies throughout Northern California, we wanted to educate folks as much as possible to the changes of the industry and why it is important for cities to try and take control of their generation assets as much as possible.

No further public comment.

Public comment closed.

Chairperson Gonzalez stated, Commissioner Ammiano, we will take up the item on July 5th.

6. Discussion regarding San Francisco LAFCO's Future Work Plan (Continued from the June 7, 2002 Meeting).

Ms. Young stated, I would defer to Commissioner McGoldrick. This was his item in terms of wanting to have a discussion at this Commission about the future plan.

Chairperson Gonzalez stated, I think we were all kind of in the context of talking about who would take over the attorney work, and we started into the dialogue about what we are going to be doing in the future. I am wondering, Ms. Miller, if you could help me with one question—is there any prohibition under Sunshine laws from the Chair of the LAFCo meeting with the individual members to discuss future possibilities? I know there are prohibitions on the seriatim meetings. Would there be a prohibition from simply discussing what individual members are interested in doing?

Nancy Miller, Esquire stated, there is prohibition against serial meetings, like with you meeting with each one to reach a consensus on a work plan. But you could meet with just one. Or you could designate a committee to come up with a work plan. Or you could ask your Executive Officer to gather input from the different Commissioners and have that be an agenda item and report back to you in terms of if there are different things that your Commissioners want as a work plan. We don't really have any other work plan other than the study right now. We have money in the budget right now to finish up with the electric study and come back for one or two more meetings. Beyond that, we don't really have guidance or issues that we are dealing with.

Chairperson Gonzalez stated, I think it is important that we be thinking about this for the future. Once we have the final report, hear from the public, and start considering the future, there will be some issues related to financial constraints, the need to go to the Board and deal with supplemental requests in the event there is something that we need. There might be a time period where we decide to reconvene after the end of the year. There are a lot of different ways this thing can unfold.

Commissioner Ammiano stated, I was thinking of a conversation I had with a leading local public power advocate. We talked about LAFCo and if the ballot measure is successful, what role LAFCo might have. I personally have been thinking we would continue for a very long time, but then that was something that we "noodled" around a little bit. Maybe there would be life after LAFCo that LAFCo would continue even with public power in place if that happens. We have some scenarios to explore and develop in that way.

Chairperson Gonzalez stated, I hadn't thought about this prior to this item being called in the meeting. I know that Supervisors McGoldrick and Daly have the public advocate and Auditor General proposals pending. I know they very well may be on the November ballot. The LAFCo does have rather broad powers to go into the creation of agencies, it goes into government efficiency. It could very well be a place where we could try to flush that out. The Controller made available to us at the Rules Committee a law review article written in part by Mark Green who was the public power advocate related to the history of the public advocate. I just got ten pages into it, and I think it is a fascinating issue. So, we can explore.

Ms. Young stated, since the Chairperson is prohibited from meeting with you individually, one suggestion is that Nancy Miller and I meet with each one of you and discuss some of the broad responsibilities associated with LAFCo, collect your ideas and thoughts and bring it back to you for discussion.

Chairperson Gonzalez stated, I think that is a good possibility. I do want to quarrel with the advice because I don't think I am prohibited from meeting with the individual members. I am prohibited if I go to each of the individual members and talk about my idea about what I want to do to try to build consensus. But if I go to Commissioner Hall and say, what do you want to do with this agency and then go to Commissioner McGoldrick and ask him the same question, that is okay.

Ms. Miller stated, you cannot just seek consensus. But, if you are going to seek input, you could definitely do that and then come back. Your Commission Executive Officer could as well. As a LAFCo, if you remain constituted, there are certain statutory requirements you have. Basically, they are called service reviews. You are supposed to constitute and run service reviews of public agencies within your jurisdiction, and you can be aggressive about that or as non-aggressive as you choose to be. Some LAFCo's are very aggressive about that, and others are not.

Chairperson Gonzalez asked, can we change the name of the LAFCo and call it the Department of the Auditor General? I know we are all incredibly busy, but I would appreciate it if folks meet with your respective aides and give some thought to what we might do in the future. Maybe, each member here could communicate that to Ms. Young. I would be glad to meet with you and we could certainly have a presentation. It might be helpful if Ms. Young could make the language available to the members of the Commission as to what our charge is under state law.

Ms. Young stated, I was just having a discussion with our attorney that we would scope out a fact sheet that would give you some information about what the possibilities are, what some of the charges are so that could be a prompter for your discussions with your staff. Then you can get back to me with your comments.

Commissioner Hall stated, that is what I was going to ask for. I would like you to set up a meeting with Sean and myself.

Ms. Young concurred.

Vice-Chairperson McGoldrick stated, we have the potential to do a lot of good things here. That is all I wanted to do and to bring up the possibility that we would have some other tasks before us which would promote the general welfare of the City including ideas such as what Chairperson Gonzalez just expressed are things to think about. I am on board for keeping our ears and eyes open.

Public Comment

No further public comment.

Public comment closed.

7. Discussion regarding the Draft Energy Services Study.

Chairperson Gonzalez stated, I was interested in maybe having a few of Ms. Young's thoughts, to hear from Mr. Bell. I was hoping to have Mr. Bell address some of the points that Mr. Maynor raised. I don't know if Mr. Bell has seen his remarks. For the benefit of the Commission, maybe you could just go down them and summarize and give us your thoughts in the event the Commissioners have not had a chance to familiarize themselves with those remarks. Certainly, to open it up to any other concerns.

Ms. Young stated, I would defer to Mr. Beck. I did in fact concur with the comments that were made by our legal counsel, Don Maynor. It is my understanding that Mike had a conference call with Commissioners Hope Schmeltzer and Diane Fellman yesterday with respect to the comments they had as well as the ones that Don Maynor had presented to Mike Bell. I would defer to him since he has the most recent information.

Mr. Bell stated, why don't I start by taking a moment to describe what we've done since the last public hearing. What we've attempted to do is take the discussion and the comments from that hearing and work those thoughts and ideas into this next draft. Also, we have been working the last couple of weeks with the Task Force receiving written comments back from Task Force members and addressing those written comments. The comments that you referred to from Mr. Maynor are, as we speak, being worked into the draft. We had, as Ms. Young pointed out, a conference call yesterday afternoon with the Task Force specifically with regard to those comments and the comments of the other Task Force members. Mr. Maynor's comments essentially go back to the last public hearing and also attempt to bring out the issues in the Executive Summary with regard to energy pricing, reliability, and local control. The suggestion that he had in terms of developing a matrix that shows how each of the different options would affect pricing, reliability, and local control is what we are working into the Executive Summary of the next draft. He also had several other good comments that are also being worked into the draft as well as comments from other Task Force members. We are on schedule, and I expect that we will deliver the report as agreed to.

Chairperson Gonzalez stated, this is a point Commissioner Schmeltzer brought up previously, the importance of keeping in mind as much as possible the unique characteristics of San Francisco. I know that you have done that, but I did concur with Mr. Maynor that that was something to keep at the forefront because we certainly want that in the document.

Mr. Bell stated, that is a very good point and that really came out in the public hearing. What we have done is taken some of those comments and moved them right up to the front of the report. The other thing that we've done is add a new section in the report that identifies next steps for these options, the amount of time, and budget estimate of what it would take should the LAFCo decide to move forward with any of these options.

Chairperson Gonzalez stated I also thought Mr. Maynor's remarks about the effort at trying to assign some kind of cost of acquiring distribution, but really almost like a comparative analysis of what had happened in other jurisdictions. I thought that was a novel way of trying to "skin the cat."

Mr. Bell stated, what we have attempted to do in the new section is come up with a bar chart that would identify what those costs might be with a couple of different scenarios. Obviously, there hasn't been a great deal of time or budget to quantify that in extreme detail, but from what we know and what we have done in this area, we have been able to take a crack at putting that together. What we are doing with regard to the draft is circulating a revision today to the Task Force that incorporates the comments that I have just addressed. All of that has worked into this draft which we are delivering to the Task Force today.

Vice-Chairperson McGoldrick stated, during Public Comment, Mr. Brugmann stated he was interested in exploring some deeper more detailed kind of analysis. Mr. Mellor indicated that would take a lot more work. The scoping for that would be much deeper, and that would be something that you would need a work order for that. That is not part of your work order or program. I just want to get an idea of how long that would take you to do if you were asked to do something deeper and more detailed in terms of a more complete package of acquisition of the grid, generation issues, or deeper transmission issues.

Mr. Bell stated, within the context of what we discussed in terms of coming up with dollar estimates and more thorough analysis of the costs of acquisition, we estimate it would take about three months to complete that work. That would be physically looking at portions of the system and so on, evaluating them, coming up with cost estimates. The cost of that would be in the range of about \$150,000 to \$200,000. That is incorporated into this next draft of the report as one of those potential next steps.

Public Comment

Mr. Stern, Local 1245 IBW, stated, several comments and observations based on our experiences in the past with all three types of utility employers, municipal public agencies, private utilities, and private energy generation companies. The first is that it is our view that the timeframe that the Beck Company was allotted to perform the study was really too short, and it is difficult for them to put together a full and incredible study. We think they have done rather well with the timeframe, but there are some things that would probably need further study and further detail. Particularly, the specifics of San Francisco load projections. We do keep track of our estimates of the state load need for various reasons. We have various utility union groups that we associate with. Our estimates for load growth and this is for the state of California indicate that there will be an increased load at a faster rate than what the Beck study shows. Because Beck and the study correctly identifies the transmission or location problems in San Francisco that exist, because of the problems of getting electricity to San Francisco that does put the City at a greater risk at a faster point in time.

There are also two other things that are not inaccurate, but perhaps somewhat misleading. Table 4.2 identifies comparison of distribution services between public utilities and Investor Owned Utilities (IOU's). The language says both adhere to General Orders 95 and 128, and this is very important to our members. In fact, the investor owned utilities or the private utilities are required to adhere to General Orders 95 and 128. These are state-mandated work orders. The public agencies are not required. They generally do on their own, but they don't have to. We have gotten into some discussions with our public agencies and at times have had disagreements about whether they are properly adhering to what we consider to be reasonable safety work practices. Also, the rates and pricing, and this I think a true statement, but somewhat misleading--historical prices have averaged 20 percent

below IOU's for similar customer segments. We think that is correct. I think the difference in what we see as the difference now is the access to federally subsidized or low-cost federal hydro power is not available. In fact, we have an interesting situation with our employer, SMUD, in which we have been in contract negotiations for some time. They have taken a rather large hit during the recent spike in prices where they had to buy electricity on the spot market, and they are feverishly trying to develop new sources of generation for themselves. These are things that we are concerned about that the City and the LAFCo understand about the current environment in which to go forward and acquire municipalization.

Chairperson Gonzalez stated, perhaps Mr. Stern can speak to Mr. Bell and he could confer with you. I am sure that he would be glad to do that. I think that while I acknowledge we've certainly asked much of our consultants, they have a very fine reputation, and I doubt that they would be interested in publishing a document that they weren't comfortable with and would rather miss a deadline than publish inaccuracies.

Mr. Stern stated, I am not suggesting that they are. I don't think I found anything inaccurate. I think there are just some things that probably could use a little bit more flushing out.

Commissioner Gonzalez asked, Mr. Bell, could you have a talk with Mr. Stern? He seems to have some ideas.

Mr. Bell stated, I would be happy to speak with Mr. Stern regarding all of the issues he mentioned, growth projections which actually have been part of the Henwood section part of the work, but also Beck has worked in conjunction with them on that. The General Order 95 and 128 issues are probably more semantics than anything else. The publicly-owned systems as Mr. Stern identified largely do follow those regulations. I am not aware of any that don't, but we can take a look at that language in the report. Perhaps I can identify with Mr. Stern where the comments with regards to rates are identified in the report. I believe that what we have commented on is the comparison of a new utility that is just forming to those that have been in existence for 100 years clearly creates types of situations that he has just described. I would be more than happy to meet with Mr. Stern and discuss his comments and questions regarding the report.

No further public comment.

Public comment closed.

8. Future Agenda Items

Chairperson Gonzalez stated, I think we have touched on this agenda item with Item Nos. 3, 4, 5, and 6.

Ms. Young stated, we do have one additional item. We would ask for a closed session at the next meeting to further discuss our potential litigation.

Chairperson Gonzalez stated, colleagues, if there is not an objection, we will schedule this item.

Public Comment

No public comment

Public comment closed.

Chairperson Gonzalez stated, we will follow the recommendation of Ms. Young

9. Public Comment on Items not on the Agenda

Mr. Charles Kalish stated, I apologize for being late, but the item on the agenda that had to do with outreach is what I tried to get here for.

Chairperson Gonzalez suggested that Mr. Kalish speak to Ms. Young about this item. What we have essentially done is we are going to delay final decision-making on that until we have a final report. Ms. Young is going to prepare alternative things that we might do.

No further public comment.

Public comment closed.

Ms. Young asked if we should set up the next meeting so we can direct Mr. Bell for coming back with the Final Plan. I was suggesting July 19th that would give enough time for the Plan to be done. Mr. Bell has agreed to that date, Ms. Miller, and Mr. Maynor can be here as well.

Commissioner Fellman stated that she would be on vacation on that date and to check with Commissioner Schmeltzer to see if she can attend.

Ms. Young stated, if not, we would poll the Commissioners for another meeting date.

10. Adjournment

The meeting of the San Francisco Local Agency Formation Commission adjourned at 3:02 p.m.

**San Francisco
Local Agency
Formation Commission**

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AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

**Special Meeting
Friday, July 26, 2002 at 2:00 p.m.
City Hall, Room 263**

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick

Members: Commissioners Ammiano, Hall and Schmeltzer

Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call.
2. Approval of Minutes for the Public Hearing of June 17, 2002 and Commission Meeting of June 28, 2002 (Action Item).
3. Discussion regarding the San Francisco Local Agency Formation Commission's Future Work Plan.
4. Discussion regarding the Final Energy Services Study.
5. CLOSED SESSION

CONFERENCE WITH LEGAL COUNSEL

Motion that the San Francisco Local Agency Formation Commission convenes in closed session. Conference with Legal Counsel - Anticipated Litigation: Significant exposure to litigation pursuant to subdivision (b) of Section 54956.9. Claimant: E. J. Simpson (copy of claim is available for public inspection) for the purpose of conferring with or receiving advice from legal counsel.

Question: Shall this Motion be ADOPTED?

PUBLIC COMMENT

ADJOURN TO CLOSED SESSION

After a closed session, if one occurs, the Chairperson shall (1) request the Legal Counsel to identify the subjects discussed in the closed session, and (2) direct the Clerk to report the vote taken on any motion in the closed session.

[Elect To Disclose]

Motion that the SF LAFCo finds it is in the public interest to disclose information discussed in closed session, and directs the Chairperson immediately to disclose that information.

[Elect Not to Disclose]

Motion that the SF LAFCo finds that it is in the best interest of the public that the Board elects at this time not to disclose its closed session deliberations concerning the litigation listed above.

RETURN TO OPEN SESSION FOR ANY REPORTABLE ACTION

6. Future Agenda Items
7. Public Comment on Items not on the Agenda
8. Adjournment

IMPORTANT INFORMATION

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San Francisco Local Agency Formation Commission

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AUG 27 2002

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MINUTES

Special Meeting
Friday, July 26, 2002, 2:00 p.m.
City Hall, Room 263

Chairperson: Commissioner Gonzalez; Vice Chairperson: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chairperson Gonzalez at 2:08 p.m.

Members Present: Chairperson Gonzalez, Vice-Chairperson McGoldrick;
Commissioners Ammiano and Schmeltzer (noted present at 2:15 p.m.)

Member Absent: Commissioner Hall

2. Approval of Minutes for the Public Hearing of June 17, 2002 and Commission Meeting of June 28, 2002 (Action Item).

Commissioner Ammiano moved to approve the Minutes; duly seconded.

No Public Comment

The Public Hearing Minutes of June 17 and Commission Meeting Minutes of June 28, 2002 were approved with no objection.

3. Discussion regarding the San Francisco Local Agency Formation Commission's Future Work Plan.

Gloria L. Young, Executive Officer stated that the Commissioners have the Fact Sheet in their packet that lists options available to the Commission in terms of future planning. Commissioner Hall had indicated that he wanted to meet to discuss some of the proposals on the Fact Sheet; however, they have not had the opportunity to meet.

The Fact Sheet outlines the various options that are before LAFCo agencies, including but not limited to looking at (1) the efficiencies in providing government services; (2) orderly formation and development of local government agencies based on the needs of the community; (3) control of urban sprawl; and (4) the maintenance of open-space and agricultural land. The section of the Code that specifies specifically what the Commission's duties and responsibilities can be is also outlined in the Fact Sheet.

Vice-Chairperson McGoldrick stated that issues that may emerge out of the November election may be part of the work plan sometime in the future.

Chairperson Gonzalez asked when the next LAFCo meeting is scheduled.

Ms. Young stated that the next meeting is not yet scheduled. Vice Chairperson McGoldrick asked that the LAFCo not meet when the Board of Supervisors is on vacation from August 27th through September 16th. If LAFCo were to have a meeting, it would have to be prior to August 27th and after September 16th.

Chairperson Gonzalez stated that he would not be inclined to comment on the future work plan at this time in order to give Commissioner Hall and Ms. Young a chance to meet. Then maybe we could get input from our citizen members.

Ms. Young stated that she had offered to meet with each of the Commissioners individually. The Commissioners may contact Monica Fish, Commission Clerk if they are interested in setting up a meeting.

Chairperson Gonzalez asked that a meeting be setup before the Board break.

Public Comment

Ms. Young introduced Ms. Judy McFarland, the City Clerk of San Ramon.

Public Comment Closed

The discussion regarding SFLAFCo's future work plan was continued to the next meeting.

4. Discussion regarding the Final Energy Services Study.

Ms. Young stated that the Commission has before them the Final Energy Services Study. It contains the comments that were added by the Task Force members, Commissioners Schmeltzer and Fellman. The report answered the questions that were asked and raised a number of scenarios. Mr. Mellor stated at the last meeting when we looked at the draft report that in order to go into depth on any of the items mentioned, whether it was transmission distribution, that we would have to consider the possibilities of further consulting reports. R. W. Beck went into detail in terms of responding to two written correspondences from members of the public. Both the attorneys and Mr. Mellor from R. W. Beck are here to respond to your questions.

Mr. Mellor stated that since they had already presented the report in its draft form, he does not have a presentation of the report, but thought he would be here to answer any questions that are asked. As Ms. Young stated, they believe that they have responded to all of the questions that the Task Force raised, as well as the written questions that came in from the public. A Section 6 was added to the report which provides a summary of the questions raised so that this captured and provided a response to all of the issues, including those that were raised in the Public Hearing by the Commission.

Chairperson Gonzalez asked what is being planned in terms of the presentation of the Final Report to the public.

Ms. Young stated that she was working with the staff person from Chairperson Gonzalez's office, Mr. Kalish about outreach, but they have not had an opportunity to meet. They tried to set up times to meet, but he has been working on the public power measure that will be on the ballot. We received outreach material from the Public Utilities Commission and the Department of Environment. The Department of the Environment held approximately twelve meetings in the community. They also did a great deal of outreach to all kinds of agencies within the City and County of San Francisco, and we did obtain their lists of agencies that they contacted for their public outreach effort.

Materials were also received from Mr. Smeloff of the PUC. The outreach effort did not necessarily gain them the kind of public input that they wanted. It was suggested that we send those agencies a notice about the Public Hearing on the Final Energy Services Study. She is more than willing to meet with Mr. Kalish to see if there is some other outreach efforts that he had in mind. She is concerned about doing outreach without having a definition of what agencies we want to contact, what communities we want to go out to reach, whether we do it by district or by area. I think we would need to have some discussion about that. We do have this list and it is pretty extensive. If we were to use this list, we could see at our next meeting if there is an interest from people to comment on the Final Energy Plan. We could also make them aware that it is now on our web. We have made every effort in

terms of putting the notices about the Energy Study in our community papers and soliciting comments. We have had two responses. We had great write-ups in the newspaper about it, but we haven't had many responses. Two public hearings were estimated to take place. They are not scheduled at this point, but could be scheduled.

Chairperson Gonzalez stated that he did not have a chance to read the final study. He did look carefully at the draft, and stated that he thinks the Commission is pleased at the manner in which the study was prepared, the willingness to accept input from the Commission and members of the public.

Mr. Mellor stated that it was valuable to work with the Task Force and to have that coordination effort there. It was helpful to them, and he thinks it produced a better product as a result.

Commissioner Schmeltzer thanked the efforts of Mr. Mellor and the other consultants who worked on the report for going back after the public hearing, for adding whole sections, for rearranging and really using it as an opportunity to make it a more comprehensive and better report.

Ms. Young stated that for the record, she would like to correct that we did have one public hearing on the Draft Plan after the Board meeting on June 17th. We have one hearing that we could have on the Final Plan, and she will give the Commission dates under Future Agenda Items.

5. CLOSED SESSION

CONFERENCE WITH LEGAL COUNSEL

Motion that the San Francisco Local Agency Formation Commission convenes in closed session. Conference with Legal Counsel - Anticipated Litigation: Significant exposure to litigation pursuant to subdivision (b) of Section 54956.9. Claimant: E. J. Simpson (copy of claim is available for public inspection) for the purpose of conferring with or receiving advice from legal counsel.

Question: Shall this Motion be ADOPTED?

PUBLIC COMMENT

No Public Comment

ADJOURN TO CLOSED SESSION

The Commission Meeting adjourned at 2:20 p.m.

The Closed Session meeting convened at 2:25 p.m.

After a closed session, if one occurs, the Chairperson shall (1) request the Legal Counsel to identify the subjects discussed in the closed session, and (2) direct the Clerk to report the vote taken on any motion in the closed session.

[Elect To Disclose]

Motion that the SF LAFCo finds it is in the public interest to disclose information discussed in closed session, and directs the Chairperson immediately to disclose that information.

[Elect Not to Disclose]

Motion that the SF LAFCo finds that it is in the best interest of the public that the Board elects at this time not to disclose its closed session deliberations concerning the litigation listed above.

RETURN TO OPEN SESSION FOR ANY REPORTABLE ACTION

The Closed Session meeting adjourned at 2:35 p.m.

The Commission Meeting reconvened at 2:38 p.m.

Nancy Miller, Esquire recommended that the Commission elect not to disclose any action that was taken since no action was taken.

Chairperson Gonzalez announced that the Commission unanimously elects not to disclose its closed session deliberations.

6. Future Agenda Items

Ms. Young stated that the future meeting dates that are available in August are August 9th, 16th, and 23rd. She talked with Mr. Mellor, and he is available for August 9th. If it were August 23rd, he would be out of town, but Mr. Bell could be available.

Chairperson Gonzalez asked for a date that could accommodate the full LAFCo Commission.

Ms. Young stated the item for the transition of legal counsel was taken off the agenda because Commissioner Fellman wanted to be present for that discussion, and the Attorney's Office did not have time to do the transition plan because they were working on the Charter amendments. We will contact all of the parties to make sure that one of those dates work.

No Public Comment

7. Public Comment on Items not on the Agenda

No Public Comment

8. Adjournment

The meeting of the San Francisco Local Agency Formation Commission adjourned at 2:45 p.m.

**San Francisco
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Formation Commission**

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AGENDA

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Special Meeting
Thursday, August 15, 2002 at 9:00 a.m.
City Hall, Room 263

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate Members: Commissioners Peskin and Fellman

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Clerk: Monica Fish

AUG 9 2002

SPECIAL AGENDA

(There will be public comment on each item)

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1. Call to Order and Roll Call.
2. Approval of Minutes for the Commission Meeting of July 26, 2002 (Action Item).
3. Public Hearing on the Final Energy Services Study.
4. Discussion and action regarding the transition from outside legal counsel to the City Attorney's office support to the San Francisco Local Agency Formation Commission. (Continued from the June 28, 2002 meeting.)
5. Discussion regarding the San Francisco Local Agency Formation Commission's Future Work Plan and Fact Sheet. (Continued from the July 26, 2002 meeting.)
6. Future Agenda Items.
7. Public Comment on Items not on the Agenda.
8. Adjournment.

IMPORTANT INFORMATION

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San Francisco Local Agency Formation Commission

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SEP 26 2002

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MINUTES

Special Meeting

Thursday, August 15, 2002, 9:00 a.m.
City Hall, Room 263

Chairperson: Commissioner Gonzalez; Vice Chairperson: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chairperson Gonzalez at 9:14 a.m.

Members Present: Chairperson Commissioner Gonzalez, Commissioners Ammiano, Hall Schmeltzer and Fellman.

Member Absent: Vice-Chairperson Commissioner McGoldrick.

Gloria L. Young, Executive Officer, Donald Maynor, Esquire, and Nancy Miller, Esquire were noted as present.

Gloria L. Young, Executive Officer announced that Vice-Chairperson McGoldrick is not able to attend today's meeting because he is out ill and apologizes for not being able to attend.

2. Approval of Minutes for the Commission Meeting of July 26, 2002 (Action Item).

Commissioner Hall moved to approve the meeting minutes; duly seconded.

No public comment. Public comment closed.

The July 26, 2002 meeting minutes were approved with no objection.

3. Public Hearing on the Final Energy Services Study.

Gloria L. Young, Executive Officer stated that the office sent out approximately 500 mailings of the notice of this meeting to various agencies and individuals that had indicated their interest in anything relating to public power issues. We got mailing lists from the Department of the Environment and the San Francisco Public Utilities Commission. Today is an opportunity for the public to comment on this Final Plan. Legal counsel and the Executive Officer are available to discuss next steps in addition to the final Energy Services Study. All of the public hearings that we have had with respect to public power have been transcribed, so there is enough information between the Energy Plan and those public hearings if the Commission desires for us to propose recommendations to you for future steps.

Donald Maynor, Esquire stated that this LAFCo group has done a terrific job in gathering information over the past nine months. The Commission may wish to make findings or recommendations drawing from the public hearings and the consultant's report. LAFCo would draw their own conclusions and recommendations if that is something they might want to do. Ms. Fellman is familiar with the PUC process—they will oftentimes go through a lengthy gathering process and then the Commission will make findings and conclusions.

Chairperson Gonzalez asked Mr. Maynor to write down what that would look like. Would that be in a convened meeting of the LAFCo that the Commission would articulate findings, or would the Commission direct Mr. Maynor to make preliminary findings that would either support or not support?

Mr. Maynor stated that the Commission could direct the Executive Officer to prepare draft findings and recommendations and then the Commission could add or modify those as necessary.

Chairperson Gonzalez asked Mr. Maynor if he could give the LAFCo an idea of what kind of findings he has in mind.

Mr. Maynor stated that a lot of information was gathered during the public hearing process. For an example, we learned from different people about the importance of conservation and energy efficiency in San Francisco. One of the things that PG&E said they wouldn't do is perform extensive energy audits. That would be something that you would find that that was not going to occur by PG&E; that was not going to occur by the state. You might draw the conclusion and make a recommendation that that might be something that should be done in San Francisco.

Commissioner Gonzalez asked are the findings factual findings of things that come out of the hearings, or are they recommendations to another body? The point that you just made would appear to be a recommendation to a future LAFCo because LAFCo could undertake further inquiry of the type that you are discussing.

Mr. Maynor stated what he had in mind is that the Commission has gathered a lot of information from different sources including your consultants. By making findings and recommendations, you would draw your own conclusions from what you have heard. The other option is to continue and do additional studies. That is another way of taking the information and going to the next level. It is not a requirement that you do it. LAFCo has the ability to take the information and draw its own conclusions from it.

Chairperson Gonzalez asked Mr. Maynor who the primary audience would be for the findings.

Mr. Maynor stated that the public would be the primary audience. The idea would be LAFCo went through a process, gathered information, what did they conclude? The conclusion may well be the record itself and the consultant report. Or, if you wish to draw conclusions yourselves and make them formally the findings of the Commission, you could do that as well. It is not something you have to do. It is just a possible additional step that you may wish to take.

Commissioner Ammiano stated that a representative of R. W. Beck is willing to do a presentation on the Final Energy Services Study.

Commissioner Schmeltzer stated that she recalled that the Commission discussed adopting findings at the last meeting, although it's not in the minutes. She thought there was a discussion about potential draft findings being prepared for this meeting or at the next meeting.

Gloria L. Young, Executive Officer stated that Commissioner Schmeltzer was correct, and a discussion was held about pulling out findings. We recognized recommendations were in Exhibit C, so our legal counsel Nancy Miller, Esquire started an effort at pulling out findings. I had discussions with Mr. Maynor about whether or not there were other recommendations from the public hearings, that the hearing transcripts are quite long, and whether or not they needed to look through the transcripts to pull recommendations. Rather than give the Commission an incomplete document today that was already reflected in the Plan, we thought we would come back and get a real sense from the Commission whether they wanted to look at other recommendations. That would take more time than pulling the information that is already in the report. During the public hearings, there were a number of recommendations made as to whether or not code should be changed within the City. A discussion was held as to whether there should be more effort in energy conservation that the Commission might want to make recommendations to the City and County departments to pursue. That would mean taking a closer look

at those public hearings and the comments that were made from a variety of utility directors from other cities, and then coming back to the Commission with findings. We haven't had a chance to do that.

Commissioner Schmeltzer stated that is broader than what the Commission discussed doing. Part of why we had all those people come in and discuss these wide-ranging issues was so that we could discuss the types of things that another agency could do if the City were to become a public power provider. As far as findings, our study is about the services the City would provide and the next steps to get there, rather than how that entity should run its day to day operations. I was expecting to see something based on the report for today. Does anybody else remember this conversation?

Chairperson Gonzalez stated he remembered it being a relatively short conversation.

Ms. Young stated it was very short and that when they went back and talked about it, that's how it became an issue that got broader. It made more sense to come back, have the public hearing today, to give you the information that we had pulled out. Most of that is already there, but was pulled out in a separate document. If you wanted it broader, to give you the opportunity to make that decision.

Commissioner Fellman stated the work that they have been doing on LAFCo has focussed on preparing this analysis, which the Commission is looking at in final form today. I did not attend the last meeting when this discussion was held. There are observations already in the report laying out the pros and cons of the different paths that the City could take. The Commission does have the San Francisco Public Utilities Commission already looking at some of these issues, and it would be my sense that we would not want to unnecessarily duplicate what their findings are, but rather either expand or comment on what they are doing. Before the Commission determines whether we want findings or recommendations, the Commission should have a conversation about what the next step is for the LAFCo and what role the LAFCo wants to play with respect to the City and County's energy policy, given that we are concluding the first phase of that role.

Chairperson Gonzalez stated that he agrees with Commissioner Fellman. However, the previous discussion that we had about this was not so substantive that a decision was made and moved on. To the extent of what our future charge is--the exercise of trying to look at findings or recommendations may help us decide what our future charge is. The Commission could direct their attorneys to look into that and ultimately reject draft findings that are put together because we think they're duplicative or we don't think accurately reflect the work that the Commission has done.

Commissioner Ammiano concurred with Chairperson Gonzalez's remarks. The discussion wasn't that substantive last time.

Commissioner Hall asked what the process is of preparing findings of the staff reports. Who does that and what is the timeframe?

Ms. Young stated LAFCo would direct their request through me and I would work with the Attorney's Office because some of those findings do have a legal aspect and they would bring it back. It is the same as any department that a study is made and out of that study, recommendations are usually generated. There are recommendations in the report that can be pulled out in a separate document that you can look at and make a determination.

The question became wider because the question was whether to include the comments and recommendations that may have been made during the public hearings and pull those in as well. What is reflected in the report is that we have had a series of public hearings, but not necessarily spelling out each one of those recommendations.

Nancy Miller, Esquire stated typically when LAFCo's receive a study like this, you can do one of a couple of things. You can formally adopt/approve the study. Since the study has a number of alternatives in it, you could take the next step which is if there are actually alternatives you want to choose, recommend, or make findings about, you could pull those out of the document and make those your findings. In other words, you have a couple of alternates on many of the chapters that the consultants gave you, different ways that the City could operate or do things better. Or, third, you could accept the report, take no further steps other than to disseminate it to the public. Then, if you have ballot measures then the public can take that study and use it to make their decision when they move on to the ballot box. When we were talking, it was a brief conversation about recommendations, which is a step that is available to you, but you certainly don't have to take it.

Chairperson Gonzalez stated I was thinking about this less from the point of view from the ballot box and more of the point of view of the future configuration of LAFCo that may not include the current members here. If for some reason the LAFCo wanted to pick up and continue work and the current members were not here, there is something to be said for the institutional memory that findings help accomplish.

Commissioner Fellman asked Chairperson Gonzalez to elaborate what those findings would look like. Are you suggesting that we pick a path out of the recommendations or that we further delineate what the two paths are?

Chairperson Gonzalez stated that his thought on these kinds of findings could be two-fold. One would be to reach a factual conclusion about something given the testimony that was heard earlier. The other issue would be articulating possible future courses of action. It is like saying there are certain things that we have done and certain things that we did not do. I think it is sometimes helpful to make sure that whoever comes after you is aware of things that you did not do. They can move

forward with that understanding that there may be certain things that they may want to explore that we didn't flush out.

Mr. Maynor stated I was thinking of drawing out the most important points from this process and identifying those, making conclusions or recommendations. Then you can verbalize those. Or, you can simply adopt the report and the recommendations in it as your own. That could be a simple set of findings. I didn't want to spend a lot of time to find out that was not the direction that the Commission wanted to go in.

Commissioner Hall stated that the Commission needs some type of document that shows what the Commission touched on, what this group is satisfied with, what we didn't emphasize, what came out of it that maybe future groups may want to take a look at. Some kind of document that summarizes where we have been so that future groups coming in may emphasize an area of this past study that this Commission didn't emphasize. I don't want to go on studying this forever—there are a lot of other areas of governance that I would like to look at.

Commissioner Schmeltzer stated that part of why we had a brief conversation last time was because we did not know how these findings would look like. The idea was we were going to get some draft findings so we can see if that was the direction that we wanted to go in. There is no problem summarizing what we have done. I don't see why that should take an extraordinary amount of time and effort to summarize who has been before the Commission and two or three points that they covered. The main focus and the main thing that the Commission did was put together this report and work with the consultants on going back through all of the testimony from those hearings and put together something. It seems that the Commission should, as far as findings, use that as the basis for what the Commission is summarizing and proposing in the future for this body whether it is us or somebody else.

Mr. Maynor stated we didn't want to presume that this was an extensive set of findings. You could make it a simple set capturing a few points from the report or you can make it more extensive. It was really an option that the Commission had, and we felt it would be useful to get the Commission's direction on it.

Commissioner Fellman stated she is familiar with the Public Utilities Commission's and the California Public Utilities Commission's process. What they typically do and we do before them is have a series of hearings when there is an issue. In this case, it would be similar to an order instituting investigation where there would be a policy determination. At the end of it, their objective is to come up with a policy recommendation. That is what I am struggling with if indeed we are going to have findings in the sense of summarizing what has been done, showing what issues have been addressed. I recommend that the Commission adopt this report. I would like to hear from Ms. Miller whether it would be appropriate and we take the next step and make recommendations, or provide policy guidance to the City and County's process based on the record that we have and our report.

Ms. Miller stated that in terms of recommendations, what I would recommend is that the summary is very easy to do because of where we have been and where we are now. One of the things that we were looking at initially was whether to form a Municipal Utility District, and there are significant legal constraints on you. I think one of the recommendations that I put in Exhibit C that is already in the report now is that it doesn't work for San Francisco because you have to go outside the City in order to form it. That type of recommendation would be that you would work within your current SFPUC. That it makes sense for you not to form a separate Municipal Utility District with some outside entity, at least not at this time. The current language in the Charter limits the San Francisco Public Utilities Commission's ability to respond to a changing energy market. That should be something that should be looked at by the PUC and by your potential future LAFCo studies. There was also a recommendation regarding utility surplus funds and how they might better be expended. Also there was a recommendation that San Francisco has the necessary authority and Charter provisions to operate a municipal utility so you could expand the powers of the San Francisco Public Utilities Commission. There were a couple of other recommendations in Exhibit C that were fairly minor about the way that you have experienced staff on your San Francisco Public Utilities Commission. There is no need to go out and create an additional new entity in order to function. Then there was a recommendation regarding energy efficiency programs, building codes, conservation, etc. Those are the kinds of recommendations that we were thinking of initially before the draft study had been actually prepared.

You have a lot of other recommendations that your consultants have made that are much more specific about transmission, generation, that kind of thing, which you could also incorporate or not. You could simply adopt the study and say here's the history where we've been, this is what we decided to do with the study, the areas that we decided to look at and leave it much more generic in terms of your recommendations or findings. It is really up to the Commission. You have a massive report with a lot of detail and analysis in it. You don't want to summarize it all over again because you already have it. You could do a few things from where . you've been which was originally the utility idea, which I don't believe is a good idea. I believe expanding your current authority and going forward with the current department is something you could take and make some recommendations regarding. That is up to the Commission.

Commissioner Fellman asked if it is the role of LAFCo then to make recommendations on how the City and County would proceed with dealing on the bureaucratic side.

Ms. Miller stated depending on how aggressive you want to be. It certainly is within your power and authority to make recommendations regarding government organization. If you have recommendations regarding improving government efficiencies, the structure of government, added powers or lesser powers are all part

of your charge. You are a unique LAFCo in that you are a City and County. But, still you have that charge and you certainly have that authority. Other LAFCo's do it.

Commissioner Hall stated Ms. Miller was correct. There are a lot of areas, and I am not familiar with each one because I came in late on this Commission. There are a lot of areas that we could recommend improvement or forward recommendations within the current PUC structure that we have studied as a result that the Commission has come to know about as a result of this study. That's a prudent safe way of going not knowing if we are going to have a new Municipal Utility District or not. That seems to be a question that needs to be decided by the voters, but we can strive to improve as a result of this study the existing conditions or parameters that the PUC is working under. Should a Municipal Utilities District become a reality at least we get something out of this study.

Ms. Miller stated you could still have a Municipal Utility. Originally, it was the district idea. Given your uniqueness, it seems that you should rather have your own utility if you were going to do it.

Chairperson Gonzalez asked to move on to the presentation of the Energy Services Study and finish this conversation on the future agenda items.

Mr. Ken Mellor, R. W. Beck introduced himself and stated that Jim Davidson from Henwood Energy Services was also present to address questions that may pertain to his section of the report. Mr. Mellor stated that he has a potentially lengthy presentation which encompasses the same kinds of material that were presented at the first public hearing and then some new material that covers the activities that took place since the first public hearing and this public hearing. He proposes to discuss the highlights of the first part of the material and will dwell a little bit longer on the material that came out of Section 6 of the Report, which was a section that was added after the first public hearing.

San Francisco LAFCo Energy Services Study

There are three participants in the Energy Services Study, R. W. Beck, Henwood Energy Services, and Flynn Resource Consultants.

Report Purpose & Industry Structure

The purpose of this study was to look at options San Francisco might have in terms of energy services. There were three key elements that the three participants were asked to look at. The first was rates and pricing. The second was reliability. There had been shortages and concerns about reliability both in terms of cost and physical reliability of energy supply. The third was local control.

Study Addresses. The report was actually broken into sections with one section on the wholesale power market costs. For the most part, this was intended to be a study that was qualitative, not quantitative. There is an exception on the wholesale market prices where there was a fair amount of quantitative information. Transmission issues that are important to the City and County of San Francisco were discussed. Then looking at various ways that energy could be distributed to the consumers in the City, and finally an element on conservation and energy efficiency and renewable resources.

Governance & Ownership Options. There was some governance options that were looked at. The first was just continuing with Pacific Gas and Electric Company as the supplier. Another was looking at the San Francisco Public Utilities Commission and expanding their role in the energy business. The third, which you have been discussing was the potential for a new Municipal Utility.

Industry Structure. One of the reasons that this came up in the first place was that there has been a lot of turmoil in the electric industry. PG&E is currently in bankruptcy and looking for ways to get out of that. They have a lot going on at the Federal Energy Regulatory Commission, and there is still a lot going on there. There are also activities going on at the Public Utilities Commission particularly with regard to direct access. That is the ability for the end-use consumer to select the provider of the commodity. That could be over lines owned by PG&E or somebody else, but their ability to choose their energy supplier.

Power Supply

2000-2001. In terms of power supply, the report looked at what happened in 2000-2001. There is a fairly long list and discussion of the events that led up to the turmoil in the market.

Near Term Outlook – Events. The report also contains a near-term outlook. Essentially what the report says is that things have stabilized, prices in the wholesale markets are down right now, and there are reasons given in the report for that.

Long Term Outlook. In terms of long-term outlook, one of the concerns raised in the report and this gets to some of the issues in the City and County is that there is a potential for a locational marginal cost pricing. That means that different regions of the state if they are in congested areas would pay higher prices. That is addressed at a fair amount of length in the report, and it is clearly a threat to the City and County of San Francisco. We also talked about environmental effects of the existing power plants in the City and then what can happen with technological change, new distributed generation and other activities that could come along that would offset some of those needs. There in that section is a discussion of what are the loads, what are the current generation resources,

what are the issues facing San Francisco as far as the fact that the loads exceed the local resources.

Wholesale Generation Risk Factors. On the power supply side, key risk factors – one of the things we discuss in the report is the value of integrated planning. Right now what is happening in the industry is the investor-owned utilities have been forced to divest their generation. They have had to turn the control of their transmission over to the California ISO and then they have their distribution companies. They no longer have the ability to integrate the planning that takes rates, loads, all of those kinds of things and looks at the package, and says here is the best thing we can do because there are tradeoffs all the way through. We discussed that a lot in the report and is one of the values of getting in to a public power situation where they still have fully integrated services. They have their own generation, own transmission, own distribution, own conservation programs and they can balance those, and they can change their rates and influence how people use energy. When you can do that integration, it provides value. I am mentioning that here, not just in this part, it comes up time and time again in this report, and so you will see integrated planning throughout this discussion.

Options for San Francisco. In areas of power supply, we looked at options at continuing to rely on PG&E and the California ISO for transmission, developing renewable resources and distributed generation. You can do that even under the current structure. You can rely on developers to go in at places like Potrero and upgrade or replace that plan. There are a lot of ways you can look at this. The fact is that one of the issues that comes out of the bottom end of this is, do you have local control, how much can you influence those activities? That is one of the things that you get into as you get into finally the issues of governance and what kind of overall utility structure you want.

Transmission issues

There are issues of these congestion charges that I mentioned earlier. The City has less reliable electric service than most of the rest of the state. That's because of geographic conditions. That's because investments were not made. It's very difficult to site and build a transmission line. It's also very difficult to own and operate a generation in a congested area. All of those things have worked to your disadvantage. So, San Francisco is more at risk than most of the rest of the state in terms of physical reliability of power supply. That is one of the issues we have addressed throughout the report. There are potential transmission additions that will help. But even with those, they are not likely to offset the need for additional generation in the area and for continued emphasis on conservation and load management and the other things that help offset the need for generation.

Transmission Opportunities

In terms of what the City could do with transmission—it could develop transmission itself, invest in it and turn it over to the California Independent System Operator to manage to schedule. It can create a control area and that's if it goes fully into the electric business and actually separate itself from the California ISO and control its own transmission rather than depending on the ISO to do it. It can develop targeted transmission investments where it goes out and helps to get a line built that needs to be built. Sometimes it's not just the investment, it's whether you support the construction building of and siting of a line, the environmental issues and all of those things. If a public agency supports those things, it often helps the process along. To the extent that you actually invest in it, you can make sure specific line segments are built. You can turn it over to the California Independent System Operator to operate, and you could recover your costs of doing that because they would pay you your revenue requirements for owning that section of the line. All of those are opportunities that the City could take.

Electric Retail Service Issues & Options

Current Service Providers. Going to the retail services. Two current issues going on. One is the PUC is providing service to municipal loads, the airport, and PG&E is providing the services to the rest of the City.

Service Options. We looked at various service options. One includes aggregation. One is integrated distribution services. That is where the City would actually own the distribution system. The third is spot municipalization. This would be in a new development area where instead of having the developer turn the distribution system when it is built over to PG&E, it would turn it over to the City, and the City would then be the service provider in that small area. We have a fairly substantive discussion of that in the report.

Facilitator of Aggregation. There are a number of ways that the City can be an aggregator. Right now there are some restrictions on that because the Public Utilities Commission has stopped new direct access or aggregation services, but there is legislation on the Board and it is likely to come back and again be an alternative. If it becomes an alternative, then there are two different aggregation models.

Facilitator of Aggregation ACWA Model

One is where you facilitate aggregation. This is the model of facilitated aggregation. The big issue here is that the contract is between the energy service provider--that is somebody else out there that has control of the electric energy and the end user. So it bypasses the City, but the City has facilitated it by going out, issuing requests for proposals, signing contracts, saying here are the standard terms and conditions of what you as an energy service provider will

provide to the customers. All we can do is help that contract process, but we are going to get out of the way so you or the City doesn't have any risk in doing that.

Electric Retail Services & Options.

Aggregator as an Energy Service Provider. The second aggregation process is where you take risk.

Energy Service Provider ABAG Model

This is the model that is used by the Association of Bay Area Governments when they were doing this, and they actually contracted with the service provider. Here you can see that the City goes out and contracts with generators, market players. They are the risk-taker. They then have another contract with their end-users, and they are right in the middle of it. It is a much riskier method of aggregation. Essentially it accomplishes about the same result.

Community aggregation – AB 117 Migden. Community aggregation is just a spin on the other aggregation approaches. There has been legislation that would allow aggregation by public agencies where instead of the public agency having to go out and convince somebody to shift from service to the public agency, they would automatically shift unless they wanted to opt out. That means that the assurance that a public agency becoming a community aggregator would have an immediate large set of customers would be much greater than the current system where the City would have to go out and solicit customers to come and join the system. That legislation also goes on and protects the current service providers by making sure that there will be exit fees for a customer to make the shift. They will have to pay for Department of Water Resources commitments to long-term power supply, to the utilities who have stranded investments or debts that have occurred during the chaotic period. So there are protections in there which will make this less financially attractive to the end-use consumer. That is in the legislation.

Integrated Distribution Services. This option is looking at actually providing distribution services and we looked at all of the different approaches including retaining PG&E, having the PUC do it, a new municipal utility, spot municipalization, or some combination of those.

Comparison of Distribution Services between Public Utilities and IOUS

We've included some comparison. We are not going to go through all of these, but what we have done is to show where things are similar between a publicly-owned and investor-owned utility. This one happens to show that and what it in a sense says is that the operation maintenance of a distribution system would be much the same whether it were public or private--the reliability, and it's not always true. In fact, in the case of PG&E more recently, they have had some

problems. In the case of PG&E more recently, they have had some problems. But they use the same standards, they use the same reporting techniques. Typically, what we see across the country is that there is not a lot of difference in terms of distribution system reliability whether it is a publicly-owned system or a privately-owned system. You will get the people who have a philosophical bent one way or the other who will argue that it is not quite that. The public power folks in Washington D.C. will say public power is more reliable, and the Edison group would say no, it's the other way around. Safety, the same thing. All of the utilities in California, public or private, adhere to the same general orders. They are published by the Public Utilities Commission. They don't have to subscribe to them, but they do because they know if there were an accident they would have a liability if they didn't. So you will find the same safety standards in place for either publicly or privately-owned utilities.

Very briefly, publicly-owned utilities have lower cost of financing. Historically, they have been about twenty percent lower in terms of price from an investor-owned utility. Part of that is that they have had some advantages that are going away or have gone away. A good example is access to government power, Western Power Administration, Central Valley Project have large generation facilities in California. The public power entities have had an advantage in being able to acquire that. But because there is none of that left, a new public power agency wouldn't have that advantage unless something new comes along or others drop off. One of the other things is exemption from taxes. Investor-owned utilities pay income taxes, property taxes, and the publicly-owned utilities don't. In some cases, there are offsets because if they are not paying property taxes to the City, then the City loses the revenue stream. In any analysis, you have to look at those tradeoffs. In terms of income taxes, there is a substantial advantage to the publicly-owned utility.

In terms of regulation, the publicly-owned utility is self-regulated. That contributes to local control. The investor-owned utility is regulated by the California Public Utilities Commission. They're both for their transmission regulated by the Federal Energy Regulatory Commission. Public Purpose Programs—all publicly and privately owned utilities in California have about 2.8 to 3% of their revenues go to public purpose programs. Those are for low-income assistance, resources, research and development. They all pay about the same percentage of rates for that, but the investor-owned utilities payments are made to either the Public Utilities Commission or the California Energy Commission and then they are distributed to state-wide type programs. The publicly-owned utilities control those funds locally, can spend them locally and have a lot more control over whether more go to low-income assistance than research and development or whatever category they want.

Electric Retail Service & Options

Impact of Alternatives – Aggregation Facilitation. As we've looked at these various alternatives, the one at looking at aggregation facilitation, our conclusions are that there is not a very large price impact and at the last hearing, we said that unless Hetch Hatchy power was available and the public comment is, why wouldn't it be? That would be an option for the City as to whether they made it available or not depending on what governance structure you had. I would also note that out of about a six-billion kilowatt hour load in the City of San Francisco, about a half a billion kilowatt hours are available from Hetch Hatchy after you take the other commitments. Either service is already provided to the Airport and other municipal loads or required deliveries to the Modesto and Turlock Irrigation District that are there because of the fact that their water rights were taken by the City early on and federal legislation, the Raker Act guaranteed them energy for their pumping loads and their agricultural systems. So, when you are all done, only maybe eight percent or less of the total load in San Francisco would be available to be supplied from Hetch Hatchy so the cost differentials there when you start mixing eight percent of a lower cost resource in isn't going to change the outcome a whole bunch. No change in reliability, but greater local control.

Impact of Alternatives – Aggregator as Electric Service Provider (ESP). If instead of just being the facilitator, you are actually the risk-taker as an aggregator, still not a very large price impact. We are talking in the neighborhood of two to five percent at most. No change in reliability and still more local control.

Impact of Alternatives – Full Municipalization. If you go to full municipalization, then you start getting into substantial differences. The amount of price benefit that a consumer might get if you were to fully municipalize will be dependent in large part on the things I mentioned earlier. Those are the non-bypassable charges where those charges represented by the commitments already made by the Department of Water Resources in terms of long-term power supply contracts, any amount that the courts or the regulators find that the existing customers would have to pay back to PG&E for the debt they incur during the tough period. There is a ten percent rate-reduction bonds that were issued, and the customers switching would probably continue to have an obligation to pay off those bonds. So there are a number of issues there that would determine how big a price advantage you might see. I'm guessing 20 percent would probably be a pretty tough target to meet. No change in reliability and substantially more local control. One of the areas that you get into in local control and distribution systems is aesthetics. How fast you underground systems, what those systems look like and so, sometimes local control can have a big impact in those concerns. We talked a little bit about the ability to control public benefit funds.

Conservation, Energy Efficiency & Renewable Resources. You also as a fully integrated publicly-owned utility would have a lot more potential to look at

conservation programs, energy efficiency programs, and you can get into that integrated planning that I mentioned earlier. I want to continue to stress that as to its importance.

Conclusions

San Francisco is at Risk. The general conclusions from the analysis of generation, transmission, and distribution fall back in a large part to the generation and transmission areas where our concern is that San Francisco is at risk. You've got limited transmission in the City. You have unreliable, inefficient, old generation in the City. You have a regulatory structure that is changing and that will potentially subject the City to price variations because of the transmission constraints coming into the City, and so you have that potential which will then lead to price volatility, and the City would be penalized by those transmission shortcomings.

San Francisco Has Some Competitive Advantages. We've also concluded the City has some competitive advantages. The fact that you have an existing system there with Hetch Hetchy, you have broad public support for doing more than you are doing. You already have aggressive programs for solar photovoltaics, conservation, all of those things. You have local involvement. Those are some of the ingredients that really help when you move more and more towards public participation in the utility system.

Options to Consider. Some of the options that we have suggested include looking at participating in local generation. I know that the public doesn't want any local generation, but to the extent that you are a participant in it, you have more control over the siting, the emissions, and the noise. Whatever factors are of a concern to the public, then you have more control. You can also take the value of that resource and because in that participation you can use tax-exempt financing, you can have a lower cost resource than you would expect to get from the market.

We've also suggested that you could participate in transmission. You can do that in a variety of ways. If you do that, it would enhance both physical and price reliability in San Francisco. To the extent that there is more transmission built, it would offset the need for local generation and reduce the longer-term concern for the congestion pricing that will take place. We think that as soon as regulations and legislation change, that you will have options to be an aggregator. Those are not bad options. We think that could always be kept on a list of those things that the City could do. It could be any one of the forms of aggregation.

We also think that you are in a fairly strong position to fully go into the fully integrated public power business. We've listed different ways you could do that so you wouldn't have to go all the way, you could go to spot municipalization. I've said spot municipalization a few times without saying anything about the

negative aspects of it. I would like to just say that we do not encourage spot municipalization in the report.

Commissioner Hall asked Mr. Mellor to elaborate on spot municipalization and the potential in San Francisco.

Mr. Mellor stated because San Francisco is built out, the only logical places it would happen is in very large new shopping mall development or in a redevelopment zone or area. If you have a whole new system being put in and a lot of cities have new subdivisions going in all of the time or new shopping centers--the concept is when those go in, the developer usually puts in the main infrastructure. They do the trenching, the conduits, the utility comes in and pulls the wires and puts in transformers. A large part of it is built by the developer of the shopping center or whatever it is. They then deed it to PG&E. When they deed it to PG&E, they pay a 34 percent gift tax because PG&E looks at it on their books as a gift that they have to pay IRS for, and the amount is 34 percent. When the developer turns over a million dollar investment that they have made in that system, they also pay PG&E \$340,000 for the opportunity to do so. The idea that a lot of cities have adopted is instead of having them turn it over to the investor-owned utility, they turn it over to the City, and the City then becomes the owner of that system. The 34 percent tax is avoided, and the City then operates and maintains the electric system in that little area. It is called a spot municipalization. The problem is that reliability of that system in that there are little spots all over the system all interconnected with a larger PG&E system, which you don't control. The PG&E system is generally looped that is they feed from different directions. The spot is likely to have one feed. So, if a feed goes down, then you have the problem where PG&E can pick up and serve from the opposite direction.

Commissioner Hall stated, and at the same time the City assumes liability for the system.

Mr. Mellor stated, but PG&E has liability for the system. I don't worry so much about that as to ultimately the economics. It sounds real good because you are avoiding 34 percent of the capital cost, but that 34 percent is really only about maybe 40 or 50 percent of the investment in that system. PG&E invests the other 50 percent for meters, transformers, service drops, all those things in the wires. When you come down to it, there are a lot of consultants out selling this concept. There are cities saying, how can we lose? Well, we're concerned that they can lose. Any of these options need evaluation beyond what has been included in this report.

Next Steps

Clarify Strategic Direction. This gets into a discussion of Section 6 in the report which was the addition that was made after the first public hearing. What we

have suggested here is the first next step and you were discussing it earlier today and that is, what is the policy direction? You need to have a strategic direction or the City needs to have a strategic direction and the role that LAFCo plays in that probably you could play a key role at the outset or you could wait until the City does it. Ultimately, it is going to come back to LAFCo for your approval if there is a change in the sphere of influence in the City. Any change that takes over an activity from another service provider is going to come back to you folks. Ultimately, you are going to get involved. The question is do you get involved now, or do you get involved later. Somewhere, if any of these changes are going to come about, somebody needs to sit down and get some strategic direction. That can be the PUC. We're familiar with the Charter amendment. That may be the thing that causes something to happen. You have got a lot of service delivery options. Some of those will come about just because of changes in regulations and legislation.

If Delivery Includes Distribution Service

We were asked at the public hearing to give a set of steps that would be required if in fact the City were to go into the distribution business. This is a list of steps. First is clarify costs and time to proceed. Look at the PG&E franchise to see what it says about the ability of the City to do any of these things, to buy it out, what's the term of the franchise, perform a pre-feasibility study. This is not a feasibility study. A pre-feasibility study would look at approximation of costs and benefits of going into any one of these activities. But a full municipalization, it would be development of a business case. A lot of scenarios looking at different sets of assumptions and coming up with a pre-feasibility study. Decide to what extent the rate payers are going to benefit. If they do, then you can go back and perform a system valuation. That means going out and looking at the physical facilities that the City would acquire from PG&E and putting a value on those facilities so you know what the cost of buying out the system is. I would note that there will be a lot of argument about that valuation because the City would want to do it one way and PG&E would want to do it another way. The typical difference is three to one different. PG&E's estimate of the value of their system would typically be somewhere in the 2 1/2 to 3 times as high as what the City would think is fair price. That is just based on experience. After the valuation, it would probably come back to LAFCo for approval as to the sphere of influence. There may or may not be a vote depending on how this is done. Based on what I have seen in San Francisco, there is likely to be a vote. Then there would be an offer to purchase the system from PG&E. Typically, they would say no way. You would then go into condemnation and once that was done, you would finally implement the system. A very long process, and not an inexpensive process.

Ownership Considerations – IOU

Pros. These are just some ownership considerations, again something that was asked for at the public hearing. Some will argue that the investor-owned utilities

are more efficient because of the profit motive. We have looked at numbers and what we generally find is that they are not. In fact, some of the very small publicly-owned utilities are very efficient in terms of their operations. Investor-owned utilities have more flexible employee-compensation programs. Public agencies just have trouble with compensation and being competitive. They have more flexible access to capital. It is more expensive capital. But they have more flexibility in terms of whether they get it from shareholders or from debt from common stock, preferred stock or whatever. They are more agile generally. They can make decisions and move more quickly. They don't have open meeting laws, the Brown Act. They don't have Public Records Acts to contend with. In a competitive situation, that can be relatively important. They have less restrictive purchasing and hiring practices. Those are some of the advantages that the Investor-Owned Utilities have.

Cons. On the other side of it, they have been forced to unbundle their systems. They are no longer integrated, and I think that is huge in terms of their long-term potential for success. They have much reduced local involvement. They have fewer incentives to be socially responsible. I am not saying that PG&E is not socially responsible, but the bottom line doesn't incent them to be socially responsible. If they are, it's typically because the regulators have caused it. They have a higher cost of capital, probably by 20 or 30 percent higher. That's an important factor, and they have the taxes that we talked about earlier.

Ownership Considerations – Public

Pros. Moving to a public side, they have retained vertical integration and planning. They have the ability to use tax-exempt debt after the original system purchase. They cannot use tax-exempt financing to acquire the distribution system from PG&E. They avoid most taxes and franchise fees. Local control is a big issue. I have mentioned preference power. Before that is federal power. They do have access to it, but the access is getting more and more limited. They have freedom for green-power and balanced portfolios and all of those kinds of things that are important to local agencies.

Cons. On the con side, they are less agile. We worked with almost all of them, and they clearly are less agile. Sometimes we see social concerns overriding good business outcomes. I see it particularly in rate design, where instead of having rates that are based on costs, you start getting social engineering. It's part of the advantage of local control. But sometimes, it results in bad business decisions. Open meeting laws, public records acts are confining. They are more risk-averse. In some cases, that is good. In some cases, it costs them money. If you insure everything you are paying a premium every time you insure, and so that risk adversity causes sometimes people not to do things that they would in another business environment. They find it harder to attract and retain employees. They typically have restrictive purchasing and contracting practices.

We've witnessed that in San Francisco. The cities would lose franchise fees unless they pay in lieu of a franchise fee and the same thing with property taxes.

SFPUC Price Advantage 2005

I said that our analysis was not quantitative, and it wasn't. I put this together based on grabbing some approximate numbers out of the air. You will not find any tables or anything supporting this. What I tried to do here is show what the economic advantage might be of public power versus investor-owned utility power. First in 2005 and then I will show it to you in 2015. This is based on if PG&E has 10 cents of revenue, how does that break down, and what I am trying to show is how much is based on power. So the top part of the bar on the left-hand side shows the power supply costs. The next shows the non-by-passable charges related to debt and some other things. In addition to that, you have the non-by-passable charges of the orange part which is Department of Water Resources. So you can see that they make up a big chunk of the total of the PG&E bill. Then you get down into the transmission costs which is the gray. The black is public benefits and the bottom is the distribution charges.

I have shown if you were going to go to a PUC ownership of the system, what the likely charges would be based on different circumstances. In the first one, is where you pay the book value of the system to PG&E, and you pay the full amount of those what I call non by-passable or restructuring charges. It says you could get about a one cent advantage by doing that. The next bar shows what could happen if you could avoid 30 percent of those non-by-passable charges. Then it looks like you get a 15 percent advantage. Then I've gone back and said, what happens if instead of paying one times book, you pay two times book. You can see how important it is as to how much you pay PG&E for the distribution system. So that little orange box on the top is showing that element of it. You could see if you paid three times book, you would get back very close to what you would be paying PG&E. It's just to give you a sense of where these numbers fall out. Again, no tables behind these. Take them for what they are.

Commissioner Fellman stated I just have a quick question on your assumption on being able to avoid 30 percent of the non-by-passable charge. Was that just one of these grabs from the air?

Mr. Mellor stated correct. We've had some thought that went into that. It's not totally that but it's pretty much that. This kind of thing is going to end up in the courts. It depends how the courts view—let's just take for example the PG&E debt that they are trying to recover. How much of that should be offset by previous year's profits? How much of that was because they had the opportunity to go into a market that they didn't? They didn't hedge. They didn't do the kinds of things that they should. How much of that is inflated? When you look at that there are people who say wait a minute, there is double accounting there. So there are a lot of issues that say that PG&E debt may not be all there. On the

Department of Water Resources side which is an even better chunk, you daily read in the paper that they are renegotiating contracts. If they are renegotiating contracts and continue to renegotiate contracts, shouldn't that fall out so there is a smaller chunk there? Shouldn't some flexibility be given to a new public agency where a lot of that cost is in markets. There are ways that they can use those resources, sell off surpluses to get rid of some of those commitments. There is reason to believe that you shouldn't have to pay 100 percent of either one of those charges. What the right number is and what the courts would ultimately decide is well beyond our capability.

SFPUC Price Advantage 2015

The last table shows the PUC price advantage in 2015. It is doing essentially the same kind of thing, showing the power supply costs, distribution costs at the bottom. You will note by 2015, all of those non-by-passable things are out of there, and you can still see that there is about a 15 percent advantage in the best case and some advantage in two times book purchase. That just gives you some idea of quantification of what this thing might be worth. I would say this isn't totally an economic situation. It's not just can you save a cent a kilowatt hour. It's can you increase the reliability of the system in terms of generation, in terms of transmission? Do you want local control? Do you want control over your conservation, energy efficiency programs? All of those things should be factors in whatever future direction you take.

Public Comment

Jeff Hunt, San Francisco resident, stated, Chairperson Gonzalez I liked your idea for laying out the plan with both sides of how steps go so that there is a setup for future panels to see what progress you have made and change direction or follow direction. There were a couple of points that were made during the presentation that I wasn't completely clear on. One of which being the costs of PG&E's debt being passed on to the customers if a new authority that was created. Because if you changed your electricity provider – I know right now you can change over to some other green alternatives, and you don't have to pay a fee for that. I don't understand why if a new public authority was created, that fee would be transferred to the public.

Mr. Mellor asked Mr. Hunt to repeat his question.

Mr. Hunt restated that he was asking about the franchise fees and the debt load that would be passed on to the community when you can change your electric provider right now and you don't pay a fee for that. Why that would be done—is that because of the franchise that is set with the City currently?

Mr. Mellor stated, the franchise fee is based on the distribution system. What a franchise fee is for is paying the City for the right to use public rights of way. Typically, even though the franchise payment is based on their two-formula. The

one most frequently used is a percentage of gross revenues. But, those payments are still made.

Commissioner Schmeltzer stated that wasn't Mr. Hunt's question. He wants to know why since individual consumers can change their electricity provider without having to continue paying PG&E's debt, why a new public agency would be assigned a portion of PG&E's debt.

Mr. Mellor stated, individual consumers won't be able to. Individual consumers, if the PUC re-allows or re-institutes direct access, there will be what they call exit fees, which are to cover those factors.

Commissioner Fellman stated, the answer has to be more fundamental. Consumers can't switch right now. The State Public Utilities Commission is taking away the consumer's right to switch to a green provider. If you didn't switch before, most of the green providers have turned their customers back to PG&E. Secondly, even when we could switch as consumers, we still had to pay the debt of PG&E at that time which was what Mr. Mellor was talking about, which is what we call competition transition charges. So, presumably in March of 2002, PG&E would have ended up debt-free. That was the whole purpose. We have always been in the position as consumers of paying PG&E's debt. I think what we are saying now is that will continue to be our responsibility as consumers in the future.

Mr. Mellor stated, I would note that there are negotiations underway right now that would impose retroactive fees to those people who are currently getting direct access that will take away a lot of the economic advantages of direct access.

Commissioner Fellman stated, and those are mostly industrial and commercial customers, not residential customers.

Mr. Mellor stated, in fact residential customers have almost been forced off direct access.

Commissioner Schmeltzer stated, this was a topic that was discussed during some of the public hearings we had a few months ago when the representative from the California PUC was here. There were some direct questions for her about those exit fees and how that was going to be handled.

Don Eichelberger, San Francisco Green Party and Abalone Alliance Clearinghouse stated that he hasn't had a chance to see the revised report. All I know about is what I have heard in the discussion today, and I am looking forward to seeing it. I was hoping that it would be somewhere available, but I guess I haven't found it.

Ms. Young stated the Energy Services Study was available on the Internet.

Mr. Eichelberger stated I haven't looked to see it. I wanted to get back to something earlier about the power of this Committee. When I had the initial last hearing, I put in a written proposal. Bottom line I was looking for--it looked like we had a preliminary indication that we had some advantage to public ownership and it was just a matter of quantity. I put in a strong call for a more quantitative analysis. Apparently, that hasn't been done, except touched on a little bit in this new Section 6. But it still seems to show some advantage, and I'm not sure what role this LAFCo would have in terms of taking a position on the current Charter amendment that's going for a vote. It sounded like you could make any kind of statement or support. I am wondering if there is a possibility of a statement of support from the LAFCo on this Charter amendment, which would give the powers to enter long-term contracting, to do all of these kinds of things, support integrated management and everything that the report claims are positive things. He is looking for an endorsement.

Ms. Miller stated the LAFCo may not support or oppose a political measure as a public body or spend any resources toward that end.

Commissioner Ammiano stated I have a question for Mr. Mellor—that is the conclusion that social concerns can result in bad business practices. Are you referring to environmental justice concerns? What specifically were you alluding to? What is a bad business practice?

Mr. Mellor stated I have actually given you an example of the one that I have found most prevalent and that is in rate design. We had many public agencies prior to restructuring of the electric utility industry, that because of the social concerns and in part the public pressure from residential consumers, residential consumers were being heavily subsidized by industrial and commercial consumers commercially, principally. When deregulation came along, new energy service providers could come in and compete with the rates that included that subsidization. It meant that the utility was very vulnerable to the loss of those customers because they were charging substantially more than they should from the industrial customers for the benefit of the residential consumers. That ended up to be a fairly poor business decision and caused them to go back and make huge adjustments in their rates.

Commissioner Ammiano stated that doesn't necessarily have to follow and there are so many variables. If we have community aggregation, that conclusion is based on things that are extremely fluid and also don't speak to the common sense of whatever the local mindset is. We just have to be careful about making a generalization that social concerns automatically result in bad business decisions. I find all of those terms relative, and I appreciate that you are specific in and around the rates. Nobody wants to be blinded by that so that the utility goes belly-up or something. I would just exercise caution about those kinds of things.

Mr. Mellor stated, I hope I didn't get it out of perspective. It was only a caution. I worked for 23 years for the second largest publicly-owned utility in California. I was a CFO. I am sensitive to the issues.

Commissioner Gonzalez stated I think it is interesting following the pros and cons you can in many cases see that the point that the Commissioner Ammiano made this idea that the social concerns may override good business outcomes. If you looked at the con of a private utility, you are dealing also with the lack of social responsibility or responsiveness. Obviously, to the extent that a publicly-owned utility, we are going to engage in let's say rate design to the benefit of a certain constituency group or however that class of individual is going to be defined. You have to be careful and you have to quickly respond to changes in the market or you are going to suffer as a result of it. I think you were giving an example that perhaps the publicly-owned utility didn't move quickly enough to see the change in landscape and reality of what they had done via the rate design. I think it is a good point.

Mr. Mellor stated I think you are right. What I was trying to do is give both sides and be fair. You could take any one of these things, and somebody will argue that's not right. But I was trying to paint the general picture of what the attributes were of the public and private ownership.

No further public comment.

Public comment closed.

Commissioner Fellman stated all the consultants really did a good job on this. They were responsive. I feel that we had at the beginning of this process a lot of issues on the table. After the workshops, we had a wide-ranging array of information, concerns. They were able to distill it into a report that we have before us today that is very clear about what the issues are, pros and cons, and looks at three very different alternatives for the City and County of San Francisco on its energy use. It makes suggestions and recommendations about what would make the most sense for our City and County. I just want to commend them for the job they did on this report.

Commissioner Schmeltzer stated in answer to a point raised by a gentleman, one of the things that this report did in distilling this information was identify what will be involved in doing some of these next steps. In particular, looking at what a pre-feasibility and feasibility studies would involve for the City, the time it would take, and the approximate price was something that was discussed at the first public hearing because that item was raised. So there was a discussion about the limits of what this study could do given the budget and the timeframes involved, and that also identified how that could be done in the future.

Chairperson Gonzalez stated, Ms. Miller, I wanted to ask you about some of the issues related to governance, the legal discussion. You discussed the possibility of a Municipal Utility District, and there are a couple of things on Page 11 of the Appendix C. Specifically, the conclusion that without a state law amendment, the City and County would have to join with another public entity outside of the City and

County in order to form a district. I am not sure that I agree with that, and I am not sure that the law supports that. I think that was the interpretation of the prior City Attorney that we had, but I think that there were a couple of things that occurred after that determination. There was an opinion issued by the counsel at the legislature indicating that even if the voters in Brisbane had rejected the MUD, it would still have been formed without Brisbane. There was a lot of discussion about how the City and County could partner with some other utility district, possibly within the confines of the City and County in order to form a Municipal Utility District even under existing law. There were a lot of implications you could look to. I think it would be interesting to see if the City could partner up with for instance Treasure Island. Or whether or not we could make a determination that we have unincorporated territory because of tied property or something like that.

Ms. Miller stated it is a very good question. It is an issue that a lot of time was spent on initially when LAFCo was formed. The reason that I came to that conclusion is that while I appreciate the opinion of legislation counsel, they are just one opinion, and there are opinions from the Attorney General that say the opposite. The easiest thing to do in that scenario is to simply make a change in the law, which is to allow a City and County to form one. You are the only one in the whole state, and obviously they weren't thinking about the City and County of San Francisco when they drafted that legislation. I noted that when the measure went to the ballot, it included Brisbane. Out of the caution that there would be a lot of litigation, and PG&E would be the first one to bring it challenging the formation. You are correct. There are probably lawyers that would differ with that opinion. I think that most would say that you need a separate public entity. I looked at the Treasure Island issue. I also looked at the unincorporated area because you include the Farallone Islands, but all of that property is included in your description of the City and County so you can't really separate it out easily.

Chairperson Gonzalez asked what is the process whereby a municipality unincorporates territory?

Ms. Miller stated that would be from a cessation and you apply to LAFCo and you basically ask that a portion of your property be succeeded. The only problem is if a County were to do that, you have to go to the state legislature and that's your problem. You are really defined as a City and County. It's the County definition that is the troublesome part.

Chairperson Gonzalez stated I do think that contained in one sentence here is really a huge discussion. To the extent that I don't think it was the intent of the legislature to exclude San Francisco from being able to consider a Municipal Utility District, etc. You could just as easily have said the best way is to do the state law amendment as you suggest, but you could have also said, really there is no reason why there shouldn't be support for that given that the whole City and County thing seems to be an oversight if anything.

Ms. Miller stated I should have said that because I believe that is true. I believe that would not be a major amendment. I believe it would be a quick amendment. However, I also think that given your Charter powers and your unique stature as a Charter city, that you have the powers to create your own utility anyway. In other words, through your internal powers, you can do that, which you've got with the San Francisco Public Utilities Commission. There are some limitations on it, but you do have the ability to create your own Municipal Utility.

Commissioner Hall stated within the existing PUC.

Ms. Miller stated within the existing PUC and within your existing Charter.

Chairperson Gonzalez stated now you are using the term Municipal Utility in a general public power sense, not in a sense of the state law related to Municipal Utility Districts.

Ms. Miller stated that is correct. They are two separate entities. In terms of their powers and what they can do, they are very similar.

Chairperson Gonzalez stated the question or whether or not there are advantages to the independence of a MUD as opposed to the SFPUC is very significant, particularly when you get to the issues of capital reinvestments and what happens in a municipality. Particularly, in difficult budgetary times when everybody is looking for money to spend. Although I think I agree generally with what is being put out there, which is to pursue amending our current PUC to try to incorporate a public power mandate, I nevertheless do think that there are some unique advantages to having a Municipal Utility District defined under state law.

Ms. Miller stated that there is truth to that. I think the easiest way to deal with that issue in San Francisco is to probably change the statute rather than try to set it up and be sued and then go to court for the next six years over that issue. Given the controversial nature you are going to have in this City over trying to set up a utility from taking over the private investment utility. They'll fight you. It is best to tear down the number of issues on which they'll fight.

Chairperson Gonzalez stated I also think that part of the discussion here presumes that simply because we take a course of action that we generally agree on, there is a certain assumption that we have the ability to choose and be successful in that choice. It could very well be that the first course of action that we take is unsuccessful in which case we might be looking at something like a Municipal Utility District.

Ms. Miller concurred.

4. Discussion and action regarding the transition from outside legal counsel to the City Attorney's office support to the San Francisco Local Agency Formation Commission.
(Continued from the June 28, 2002 meeting.)

Gloria L. Young, Executive Officer stated that the packet contains an engagement letter that is before you for discussion. It is a letter of agreement between the City Attorney's Office and me on behalf of the LAFCo for you to look at and determine whether or not you wish to enter into the relationship with the internal counsel. I will bring your attention to a couple of points. One, is there is a clause in the agreement. First of all, it has several points in it. It reflects the letter that we received from the City Attorney, Dennis Herrera, with respect to the conflict of interest issue. It also indicates in the letter an agreement with the internal counsel that in fact if outside legal counsel is required, that LAFCo have the ability to approve that prior to outside counsel being sought after. Thirdly, there is a clause which indicates that there will be a distinction between the services of internal counsel for LAFCo whose members are also members of the Board of Supervisors. So that we recognize the fact that as members of the Board, that would not effect the cost that is paid by LAFCo. There will be a need to identify those issues as we go through it to make sure that when legal counsel is meeting with Board members, that there is a distinction between work being done for LAFCo versus work being done for the Board of Supervisors. Both the Deputy City Attorneys, Theresa Mueller and David Campos, are here to answer questions, and also our outside legal counsel.

Chairperson Gonzalez stated, Ms. Mueller, I want to ask about the conflict provisions. I guess I am having a problem with the conclusion that in the event that there is a conflict between the Board and the LAFCo, the City Attorney would be representing the Board and LAFCo would seek other counsel. This goes back to the whole question of what a City Attorney is and who the City Attorney represents. The City Attorney as I understood your office's position represents the public, the individual people in San Francisco. When your office gives advice, it gives advice in keeping with that charge. If you happen to give advice that favored the LAFCo in the event there was a dispute between the LAFCo and the Board, it doesn't make sense to me that you would then go represent the Board and LAFCo would have to seek its own counsel. It seems to me that what you would do is continue to give consistent advice based on your charge to represent the public, the City and County of San Francisco. There ought to be a mechanism like the mechanism that we approved, and I believe it was Proposition E, which allowed for a department or Commission that was not satisfied with the opinion delivered by the City Attorney to seek essentially independent counsel through the mechanism described in that Charter amendment. What am I missing in what I am saying?

Theresa Mueller, Deputy City Attorney stated I am not sure you are missing anything necessarily. The LAFCo already has the ability to seek independent counsel, so unlike a City department which is bound by the Charter and the Charter gives the duty to provide legal services exclusively to the City Attorney, that does not apply to the LAFCo. We don't have to have that provision such as Proposition E. You could

always go get independent counsel. On the conflict issue, I think you are right that our office would always attempt to be providing consistent advice to both the LAFCo and the Board, but because the LAFCo is a separate legal entity created by state law, it may be able to sue the Board or the City in some capacity or vice versa. In that case, as you know the ethical rules for lawyers do not really permit us to represent both entities. Because of our Charter duty, our first obligation in that kind of case has to be to the City and County as the legal entity, not to the legal entity of the LAFCo.

Chairperson Gonzalez stated the ethical concern that you raised comes up in an instance where the LAFCo sued the City. The hypothetical that I posed to you is if there was a dispute between the LAFCo and the City, it seems odd to me that the conclusion here in the agreement is automatic that you would be representing the City without regard to what your opinion is of the merits of the dispute. It could very well be that the LAFCo has no intention of suing the City because we agree with the City Attorney's position.

Ms. Mueller stated in which case, I don't think we have a conflict as envisioned by this letter. I think the letter really envisions the situation not necessarily where we have differences of opinion because we have those all of the time, even between City departments. But, where we have an actual legal conflict where we are in a position where we can't represent opposing parties to a dispute.

Chairperson Gonzalez stated I am just trying to imagine a scenario whereby the City Attorney gives LAFCo an opinion about something and the Board wants to do something differently. We want the City Attorney to go out and enforce your opinion about something.

Ms. Mueller asked, we being the LAFCo or the Board?

Chairperson Gonzalez stated the City Attorney. You wanting to defend the LAFCo.

Ms. Mueller stated, we agreeing with the LAFCo position?

Chairperson Gonzalez stated but the Board wants to do something different. So we say to you, we want you to go deal with this issue. We want you to stop the Board from doing whatever it is they think they can do.

Ms. Mueller stated I think what would happen in that case is that if we believed the Board's position to be not lawful, we would have to advise them of that. But ultimately, as you know there are cases where the Board instructs the City Attorney to do something, we don't always agree with it. It is pretty rare.

Chairperson Gonzalez stated, you may disagree, but you are not engaging in unlawful activity. Arguably, the City Attorney would simply say I'm not going to do that.

Ms. Mueller stated then if the LAFCo wanted to sue the Board for doing that based on the earlier advice that the Board couldn't do it, then there would be a conflict, and we couldn't represent both sides ethically.

Chairperson Gonzalez asked, why wouldn't it be incumbent on the Board to get its own counsel, particularly where the Board's disagreeing with the City Attorney's conclusion?

Ms. Mueller stated because we don't believe the Charter allows the City Attorney to do that.

Chairperson Gonzalez asked, what part of the Charter are you referring to?

Ms. Mueller stated, I don't have the provision in front of me, but the City Attorney's first duty is to represent the City and County of San Francisco, and that entity legally is embodied in its' Board, its' Mayor, and its' ordinances and its' laws.

Chairperson Gonzalez stated but the case law related to that charge speaks to when you say the City and County of San Francisco, you are talking about the people that make up that entity. Your primary duty is not the same as a private attorney that is paid by an individual client to go and gage in certain legal practices on the client's behalf. Clearly your relationship is different than that.

Ms. Mueller stated of course. I think we're talking about a situation that is hard for me to imagine unfolding in the way you are describing it. As you know, I think it's pretty rare that the Board wants to take an action and decides to take an action after the City Attorney says it is illegal. I don't think that usually happens. Usually, the conflict is worked out before then. But, it has to be clear that the City Attorney under the Charter represents the City and County as a legal entity as its' first charge. The Charter doesn't give the City and County the obligation to represent the LAFCo. If we are in a situation where such a choice must be made, then the choice the City Attorney has to make is to represent the City and County.

Commissioner Hall asked, assuming that their position is legal and you can defend it?

Ms. Mueller stated, yes.

Commissioner Hall stated then the conflict really doesn't exist unless they have a position that you could defend. If you can't defend it, there is no conflict.

Ms. Mueller stated except as you know, lawyers have different interpretations of the law. You've already been discussing an example of that today, and it was very prominent the last time that we represented the LAFCo.

Commissioner Hall stated I think what she is really saying is that it is unlikely that the situation would arise and if it did, you would automatically be bound by the Charter to represent the Board and advise them as to the legality of the issue.

Ms. Mueller stated I think that's right. A situation like that may or may not then result in an actual legal conflict where the LAFCo needs its own counsel. Ms. Miller may want to comment on this as she has more experience representing LAFCo's. I would also be happy to request additional advice from the people in our office who do ethics and conflict work.

Commissioner Schmeltzer stated I would like some comments on a more possible conflict scenario. If there was a proposal that came out of LAFCo to create a district or create a local agency that the Board of Supervisors was against, how do you see a scenario like that potentially unfolding?

Ms. Mueller stated it does seem like a more likely scenario that the LAFCo would want to pursue a policy option that the Board was against. Assuming the LAFCo had the legal ability to pursue it, then that might be a case where the LAFCo would prefer to have independent counsel. It's hard for me to say now that that is the kind of case where the City Attorney would withdraw. That will be a decision made based on the facts of a particular case, but it certainly could happen in a case like that. It does seem like a more likely event. Although, I don't think that is very likely either.

Chairperson Gonzalez asked what is the primary advantage to having the City Attorney as our counsel? If there is a possibility that we are going to be called upon to get outside counsel, build a relationship, get up to speed on issues to engage in either policy decisions counter to what the Board wants to do or litigation counter. I am interested in knowing what the primary advantage is.

Ms. Mueller stated I don't think that is a question I can answer. That's a policy decision that this body has to make. What we have said is that if you believe there is an advantage to having us as your counsel, we are willing to do it. We have tried to address something that was a very large problem last time.

Chairperson Gonzalez stated the policy decision is the choice, you're right. It is our choice. It is the policy decision. But the question of whether or not your office wants to be our counsel. Obviously, you should be able to answer what advantages it is for us. Why should we do it? Do you want to do it? These things seem relevant.

Ms. Mueller stated I think it is two different questions what the advantages are and do we want to do it. Yes, we want to do it for a number of reasons. I think most of you sitting up there are our clients already, and we work with you already on many of the same issues that the LAFCo is considering now. Probably, on the same issues that you will be considering in the future. That makes sense to us. To the extent that you are looking at the efficiency of how the City runs, how the City accomplishes its goals, we have a lot of knowledge and experience in that area, and we think that

is a real benefit for you. There is some efficiency in having the same counsel for your position as a Board of Supervisor's member and your position as a LAFCo member since the City and County is the same entity. As to the advantages, I think you have to identify what those are. I don't find any disadvantages to your current counsel. I like them both. I think they have done great work for you. We will be happy to work with them to transition. But, if you don't feel like that is the position that you want to be in, and you don't see the advantages of the City Attorney representing you, then that's the decision you have to make.

Commissioner Fellman stated with respect to the LAFCo legal positions that Ms. Miller generally comments on, the Cortese-Knox-Hertzberg. Do you have expertise in your office on that subject?

Ms. Mueller stated we do. We certainly don't have Ms. Miller's level of expertise because the LAFCo was a new entity to the City and County as of last year. But, we have people in the office who already have spent a considerable amount of time getting familiar with those laws because we had to do that. I think we will be able to provide that kind of advice.

Commissioner Hall asked were you saying there is certain economies of scale or efficiencies that the City Attorney would bring us in the process because many of these issues are splinter issues that you are already working on. I agree with that. I don't think that precludes us from any one part disagreement from going out and seeking outside counsel if that need be.

Ms. Mueller stated not at all.

Commissioner Hall asked can you elaborate a little bit more on the efficiencies of scale or cost that we might save using the City Attorney? We don't have to reinvent the wheel each time we are asking you a question.

Ms. Mueller stated, that is correct. There is some advantage because of our knowledge of how the City works substantively.

Commissioner Hall asked Ms. Young, what is our current rate that we are paying our outside counsel?

Ms. Young stated we are currently paying between \$250 and \$325 per hour.

Commissioner Schmeltzer asked is that different based on the attorney or based on the service?

Ms. Young stated based on the attorney.

Commissioner Armiano stated I will have to leave as I have a community meeting. This issue won't die and I would like to kill it. We have put a lot of time into

discussing this, and we need to bite the bullet. It will be a judgement call. I really do appreciate Ms. Mueller being here and putting up with the scrutiny. It seems it is a little bit overwrought. I thought there was one solution where we came up with a hybrid. I think Ms. Fellman might have suggested it. If we need a vote today, I don't want to hurry up people's deliberation on this, but at the same time we have talked a lot about it, and I would like to be here for that vote. If there is not going to be a vote today, I would hope this won't be continued to the next meeting and the next meeting. We should just move.

Chairperson Gonzalez stated that is fine. I think the question of whether or not we want to have a time period set whereby we would deal with the question of whether or not we want as a LAFCo to deal with findings. That seems like something we would finish out with our existing counsel. So, we could set up a time period for that. I think there is a general sense among this group to have the City Attorney represent the LAFCo. I don't share that opinion. I have no problem losing that vote. On the time issue, any suggestions?

Commissioner Schmeltzer stated I think it makes sense to continue with our current representation for findings. I think that's what we discussed and what Commissioner Ammiano alluded to that as far as finishing out what we are doing on this report, it makes sense to continue with the folks who are most familiar with this.

Commissioner Fellman stated I suggest in a practical sense that we have Ms. Miller and Mr. Maynor present draft findings at our next meeting and that we discuss it then. In the meantime, that we enter into the agreement with the City Attorney's Office starting in September. I think that is what we talked about a September or October timeframe recognizing that our current counsel will end their representation with the conclusion of our deliberations and if we get to adoption of findings on the report.

Commissioner Hall asked, why do we have to make the determination on this today? I agree that we need the existing counsel on the findings.

Commissioner Fellman stated there isn't a time concern. The one consideration that I would put forward is that as we move into next steps, there is going to be new issues that will be coming up. It would be good to have whoever is going to be working with us on the next steps in place so we don't have a loss of representation.

Commissioner Hall stated I think we maybe should decide what the next steps are before we decide who is going to represent us. That is my opinion. I think we need to keep existing counsel through the conclusion of what we have been working on the last six months. I think we need to have a discussion where this local agency is going to go and what we are going to be looking at before we decide who we want to represent us. Generally, I agree, I think the City Attorney should. There may be a topic here that I want to start looking at that I don't see the advantage of having the

existing City Attorney. I don't know why we are in such a hurry to make that decision today.

Ms. Young stated this was a recommendation by the Commission itself. When we first brought this before you—Commissioner Ammiano raised this issue. The timeframe was nothing magic. It was based on the fact that we anticipated by September that the public hearings would be complete. I was also directed to work with the outside counsel to enter into an agreement with them on a month to month basis that would allow us to continue to use their services. I was directed to come back with a negotiated agreement with the legal counsel for you to look at the beginning of August, first of September. That was just a timeframe looking at the completion of the Energy Study and next steps pieces. That was anticipated to be done by September. We do have a current agreement with both the counsels that we entered into a month or a half ago.

Commissioner Hall asked and there is no financial loss by not deciding today?

Ms. Young stated, absolutely not.

Commissioner Hall asked, can we hypothetically use the City Attorney on one study, one project, one field of action and use outside counsel on another?

Ms. Young stated, if you wanted to use the City Attorney's Office, the Commission would have to agree to this engagement letter or make recommendations to it. But, we would have to enter into some kind of relationship with them formally. As I have said before, we have the ongoing relationship with our outside counsel.

Commissioner Hall asked is the ongoing relationship costing us money if we were going to go to an entirely different study?

Ms. Young stated we only pay as we need their services. That's very limited.

Commissioner Hall stated I don't see any need to move ahead in finalizing or signing the agreement today.

Public Comment

No public comment

Public comment closed.

Chairperson Gonzalez stated if I understand correctly, we're going to be trying to get counsel and Ms. Young to put together draft findings that we can consider, take a look at them, and see if it is something that we want to approve or not. We're not prejudging it and we'll keep counsel through that process. I think we should decide what kind of work the LAFCo would be doing in the future in the event the LAFCo is

going to continue to meet. If so, depending on what it is we are going to be focused on, we would make a decision about representation at that time. Ms. Young, thank you for providing the information related to the scope and powers of the LAFCo.

5. Discussion regarding the San Francisco Local Agency Formation Commission's Future Work Plan and Fact Sheet. (Continued from the July 26, 2002 meeting.)

Chairperson Gonzalez asked Ms. Young, can you give us an idea of what the time period would be for the LAFCo to consider draft findings? I do think that along with that there ought to be a decision and formal vote at the next future meeting on the Energy Services Study report that was brought to us.

Ms. Young stated we could have that available at your next meeting. It is my understanding that Commissioner McGoldrick has asked that we not meet as a LAFCo during the Board of Supervisor's vacation because several of you are planning to be gone. If we had a meeting after the Board of Supervisors returns, which is September 17th, we would definitely have the recommendations in a couple of weeks. If you wanted to meet afterwards, we could look at having a LAFCo meeting the first week that we get back either the week of September 16th or the following week of September 23rd.

Chairperson Gonzalez stated, then if you can agendize the agreement for adoption or discussion.

Commissioner Schmeltzer asked, so we could get the recommendations to review before the meeting?

Ms. Young stated yes, we can make that available to you and agendize the item. If you have comments, then you can get back to us. The other option is whether or not the Commission wants to use the Committee process or you want to discuss the recommendations as a whole body. We did set aside a Committee that worked on the Energy Services Study process. We could use that Committee to run those by and have discussions about that prior to bringing it to the full Commission.

Chairperson Gonzalez stated I would just as soon meet as an entire body.

Ms. Young stated that is the way we will do it. On the issue of the Fact Sheet, you have the information before you. It was before you at the last meeting. I would just remind the Commission that I was requested by Commissioner Hall to meet and discuss this Fact Sheet. We did in fact have that opportunity to meet.

Commissioner Hall can talk about our conversation from his perspective. From the Executive Officer's perspective, it was a desire on Commissioner Hall's part to look at other areas that LAFCo could get involved with in terms of looking at efficiencies that could be gained in other organizations and pursuing what that could possibly mean. I have had conversations with our legal counsel, Nancy Miller, who has extensive background in LAFCo's looking at other areas other than what this

Commission has been concentrating on for the last two years. So we can take advantage of her being here today to give you some of that information. I did give you in bold print in the document some examples of what that might look like.

Commissioner Hall asked Ms. Miller for a synopsis of what LAFCo can and can't do.

Ms. Miller stated what you can't do is make any land use decisions. You can't make findings that relate directly to land use or regulate land use. Other than that in terms of governmental services and the way government service is provided, you have fairly broad powers to look at and comment and make certain recommendations.

Commissioner Hall asked on land use, you are not talking about the governance of that land use? Are you talking about the acquisition or the exchange or sale of land use?

Ms. Miller stated zoning. You can't regulate land use. You don't have that power. That's reserved to your City and County.

Commissioner Hall asked if we were to look into the whole Treasure Island Authority—is that considered land use?

Ms. Miller stated not the function. You just couldn't do anything having to do with attempting to regulate land use or saying we're now going to attempt to put a commercial development there. You could certainly make recommendations regarding revenue or different kinds of services, but you don't have the power to determine what land use goes on Treasure Island. You can make recommendations regarding that. Depending on the type of agency it is will give me a better idea of what type of power you have over it. If it's a development agency that was created pursuant to the Charter or pursuant to state law, you may have some ability to provide a service review of that entity, which is one of your charges by law. You review service that is being provided in your jurisdiction by the different government entities and make recommendations how to better do it, additional services that could be provided.

Commissioner Hall stated so the classic example would be to look at Treasure Island?

Ms. Miller stated I think so, but I don't know what type of governmental entity it is. I thought it was a joint powers authority. Since it is not, I would assume that you would have jurisdiction over that.

Ms. Young stated I believe this was discussed before. I think it's a matter of being able to look at the efficiencies. It is a part of that area that talks about initiating studies around whether or not agencies are formed that provide services to the City and County. It is my understanding that Treasure Island Development Agency is

that kind of agency so you could look at it with respect to whether it is providing efficiencies and services.

Commissioner Hall stated general governing issues as relates to the entity.

Ms. Young stated as opposed to saying that the Treasure Island Development Agency will be maintained as a high commercial or whatever.

Ms. Miller stated general governance issues, service reviews, having to do with the way service is delivered, provided, paid for, contracts. You have the ability to review government contracts.

Commissioner Hall stated accountability of non-profits, that type of thing.

Ms. Miller stated not non-profits. They have to be governmental entities. But sometimes, governmental entities contract with non-profits. Contracts relating to personnel. I'm dealing with one in Sacramento right now having to do with the City of Sacramento. It has to do with fire protection services, and personnel is one of those things that we are looking at.

Commissioner Hall asked, could we review or audit spending relating to certain homeless programs?

Ms. Miler stated yes.

Commissioner Hall asked, to what extent?

Ms. Miller stated many homeless programs are funded by federal funds. To the extent that a lot of those are grant monies, you don't have the ability to audit their grants. But, how they provide the service, the government structure and overhead.

Commissioner Hall stated, how those services are provided to the City as a result of the contract.

Ms. Miller stated that was right.

Commissioner Ammiano stated I think there is some unclarity about eminent domain. I know that the Board of Supervisors is in power to do that. But, there was a question about LAFCo during the MUD issue particularly.

Ms. Miller stated you do not have the power of eminent domain.

Public Comment

No public comment. Public comment closed.

Chairperson Gonzalez stated I do think because of the broad powers here we should continue and have a discussion. I can see a lot of benefits to having some kind of efficiency or auditing function. Commissioner Hall was outlining some of the areas that we could all certainly get involved in.

Commissioner Hall stated we had a lot of discussion at the Rules Committee and at the Board about an Auditor General. Some of those areas that we talked about, I thought that maybe this is the ideal agency or Commission to take up some of those issues. We don't need an Auditor General. We already have the ability to do more than what the Auditor General can do right now. I would like this Commission to have some dialogue about where we might want to go in the future. I say that because of the members on this Commission. I think we're in a good position to look into some of the governance issues of local government. I would look forward to this continued dialogue as to where we might want to go in the future once this study is sufficiently concluded.

Chairperson Gonzalez concurred.

6. Future Agenda Items.

Chairperson Gonzalez stated that this item has been discussed already.

Public Comment

No public comment. Public comment closed.

7. Public Comment on Items not on the Agenda.

No public comment. Public comment closed.

8. Adjournment.

The meeting of the San Francisco Local Agency Formation Commission adjourned at 11:32 a.m.

(Presentations are available at the Clerk of the Board's Office, Room 244, City Hall.)

San Francisco Local Agency Formation Commission

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AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

Special Meeting
Friday, September 20, 2002 at 2:00 p.m.
City Hall, Room 263

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call.
2. Approval of Minutes for the Commission Meeting of August 15, 2002 (Action Item).
3. Discussion regarding Recommendations on the Final Energy Services Study.
4. Discussion regarding the San Francisco Local Agency Formation Commission's Future Work Plan.
5. Future Agenda Items.
6. Public Comment on Items not on the Agenda.
7. Adjournment.

IMPORTANT INFORMATION

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San Francisco Local Agency Formation Commission

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MINUTES

Special Meeting
Thursday, September 20, 2002, 2:00 p.m.
City Hall, Room 263

Chairperson: Commissioner Gonzalez; Vice Chairperson: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chairperson Gonzalez at 2:04 p.m.

Members Present: Chairperson Commissioner Gonzalez, Commissioners Ammiano, Hall, Schmeltzer and Fellman.

Member Absent: Vice-Chairperson Commissioner McGoldrick.

Gloria L. Young, Executive Officer and Nancy Miller, Esquire were noted as present.

2. Approval of Minutes for the Commission Meeting of August 15, 2002 (Action Item).

Chairperson Gonzalez moved to approve the meeting minutes; duly seconded.

No public comment. Public comment closed.

The August 15, 2002 meeting minutes were approved with no objection.

3. Discussion regarding recommendations on the Final Energy Services Study.

Nancy Miller, Esquire stated that the Commission has before them a draft Resolution intended to make certain findings regarding energy services in the City and County of San Francisco, approving and adopting the Final Report that was commissioned last spring, and then making certain findings regarding the future.

Chairperson Gonzalez asked Mr. Bell if he had any comments to add.

Mr. Bell stated, nothing in addition other than to say on behalf of R. W. Beck, Henwood, and Flynn Resources, we would like to thank you for the opportunity to participate in the process and produce the final report.

Chairperson Gonzalez asked Mr. Bell if he had a chance to review the Resolution.

Mr. Bell stated that he did have a chance to look at the Resolution.

Chairperson Gonzalez asked if Mr. Bell had any thoughts on the language.

Mr. Bell stated that he thinks the language looks fine and accurately represents the content and findings of the report. If the Commission has any questions in their discussion of this material, he would be happy to help out.

Chairperson Gonzalez asked Ms. Miller to walk through the Resolution.

Ms. Miller stated that the Commission conducted a series of hearings from February 2002 through April 2002 where energy consultant experts and public agency officials were invited to testify regarding public power, energy supply, and the current energy market. There were approximately four hearings and over twelve presenters. From those hearings, a Request for Proposal was developed where we solicited public responses from energy consultants and a scope of services was developed, which led to the commissioning of the Energy Services Study. As a result of that study, we had made the following findings: (1) there is limited transmission into the Bay Area and particularly in San Francisco; (2) San Francisco is uniquely at risk with respect to energy supply, cost, and reliability. San Francisco currently has an old inefficient power generation with insufficient capacity for self-sufficiency. The electric industry is changing daily and these changes in regulatory structure will continue and will likely also continue the fluxes in retail pricing.

As a consequence, the Energy Study concluded that there was a need for the City to provide more resources to enhance reliability and self-sufficiency. The study identified three basic governance models to do that as follows: (1) the San Francisco Public Utilities Commission (SFPUC) as an aggregator of retail electrical loads; (2) a separate municipal utility created with an independent governing body; and (3) a separate Municipal Utility District.

In terms of recommendations, the Commission is adopting the Energy Services Study. We are also adopting a future work plan or at least identifying what needs to be done to take the energy issue to the next logical step, which is to pursue the model of governance further. We're basically focusing on the SFPUC as an aggregator or a separate municipal electric utility. There is a need to develop an integrated long-term resources plan and then to confirm or modify your energy supplier role for the SFPUC. In that same vein, we are recommending to either modify or expand the SFPUC's role as an energy supplier, and we are identifying the need to develop a Risk Management Plan in order to determine how to select the means and methods for providing electric service to the City and the cost and the implementation steps that need to be taken. The final recommendation is the consideration of the acquisition of PG&E's energy assets here in the City and County of San Francisco. Coupled with that recommendation is obviously the need for development of a financing plan. That is a short summary of your findings and recommendations.

With each of your findings, we are basically relying on the content that's in the Energy Services Study, which I didn't want to rehash in your Resolution. A lot of the detail for the steps and methods of implementation are in the Energy Services Study, which we are proposing that you adopt today.

Chairperson Gonzalez asked Mr. Bell if he feels that Ms. Miller's summary adequately represents the findings.

Mr. Bell concurred.

Commissioner Schmeltzer thanked Ms. Miller for preparing the Resolution, that it is a good representation of what was in the Energy Services Study, and gives the LAFCo a blueprint of items for this particular area.

Ms. Miller stated that Don Maynor, Esquire reviewed the Resolution and concurred with the text. In addition, AB 117 is still on the governor's desk as of today.

Public Comment

Sylvia Johnson made a statement during public comment.

Public Comment closed.

A question was raised as to whether action could be taken on the Resolution at this meeting as it was noticed as a discussion item only.

Ms. Miller asked if an action could be taken under Future Agenda Items.

Commissioner Ammiano stated that items are introduced under Future Agenda Items.

Commissioner Schmeltzer stated that the items are introduced and then are placed on the agenda for future hearings.

Ms. Young stated, the reason we advertised this item in this manner is to allow the Commission an opportunity to discuss the items. If you look at the Resolution with respect to the Final Energy Services Study recommendations that Ms. Miller spoke to, there are a number of recommendations that could be folded into the Commission's work plan. If you adopt the Resolution, what you are indicating is a desire to look at those recommendations as part of your future work plan. Then there is the other information under Item 4 that you had also requested in terms of looking at your future work plan. We put these two issues on as discussion items to allow you an opportunity to determine whether you want to fold those in. We can bring them back at your next meeting for adoption.

Chairperson Gonzalez stated that the agenda, rather than saying "discussion regarding" or "action item regarding," should have the topic that we're on. On a particular item as this, we probably should have calendared it as a Resolution. Then all of the things that you are indicating could have been done under that as well.

Ms. Young stated that in order for the Resolution to be adopted, we should have listed the Resolution's title as well.

Ms. Miller apologized. It should have been an action item.

Ms. Fellman stated that the agenda should say "adoption of the report" because we deferred adoption of the report until we had the Resolution. That way everyone will have notice of what we are doing.

4. Discussion regarding the San Francisco Local Agency Commission's Future Work Plan.

Ms. Young stated that at the last meeting, there was a determination by the Commission that they be provided with the Cortese-Knox-Hertzberg legal references, as well as what kind of service studies the LAFCo Commission could undertake in addition to looking into what was being done by other agencies. I will defer to our legal counsel, who prepared the report after contacting other Local Agency Formation Commissions in the state to determine what other areas the Commission could be reviewing other than the formation or annexation of districts.

Ms. Miller stated that this is a short memo to give the Commission ideas of what is happening around the state with LAFCO's and the special studies that they are doing. SF LAFCo is in a unique situation being a consolidated City and County. You don't have special districts or other independent cities, but that does not preclude you from looking at municipal services and studying governmental services. The potential range of studies is fairly broad. It includes water studies,

infrastructure studies, fire studies, a number of studies regarding growth and where to grow, and how to provide transportation and that kind of thing.

The studies that I am most familiar with are ones that I am working on right now. In Sacramento County, we are looking at regional wastewater issues. They are doing a joint study with Yolo County on trying to regionalize some of the services instead of each municipality in each county providing their own. Some services are best provided from a regional standpoint. Waste water and sewage treatment is one of those. In San Luis Obispo, they are looking at infrastructure needs. The geography of that county is a lot different than what you have here. They are also looking at issues having to do with consolidating some services to try to get some economies of scale. In Nevada LAFCo, they are looking at water, which is a particular concern to the south slope of the Sierras. That is going to be a joint city and multi-county study. They are actually going beyond their boundaries in terms of looking at some of those issues with other LAFCo's. Santa Cruz LAFCo is studying water, another large issue for them. They have actually completed their study regarding water supply and growth issues.

A lot of these studies are looking out into the future with regards to service needs, growth, and infrastructure. In Riverside County, where they have had fairly large growth, their issues are basically municipal services and how to provide them, including parks, recreation, animal control, and electricity. Napa LAFCo has fairly stringent anti-growth policies so they are looking at the issue of municipal services being provided on smaller scales within the small cities, small towns, and even small developments where a development provides some of its own municipal services rather than a city or the county.

In Santa Barbara, they have revenue issues and a city that hasn't enlarged its borders in quite some time. There they have a lot of municipal service reviews going on and discussions going on with their county.

Municipal service reviews are always helpful, and it would be something that is germane here. That is where you go in and take a look at a particular service, take an inventory of it, and decide whether it is providing the service efficiently, economically, and meeting the needs of your citizens. San Diego is looking at fire protection. The City is quite large geographically and they have fire issues due to lack of sufficient water in some parts of the community. Orange County has a number of special districts, probably exceeding any other county in the state. They are looking at consolidating a number of their districts. In Sacramento, I talked a little bit about waste water and sewage. They are also looking at fire protection. They have probably twenty-three different fire districts, and they are looking at consolidating those.

San Francisco is unique, so in terms of your future work plan, some of these studies I have mentioned don't obviously fit. But in the issue of infrastructure and municipal services, you just tailor the studies to fit your needs. That is what every other

LAFCo does. They take their own unique circumstances and then decide to solve whatever unique problem is facing them.

Commissioner Hall stated there is a great variety here. As Ms. Miller has pointed out, most of these are a result of the City and County being separate. When you look down the line here, Ms. Miller mentions that in most of the LAFCo's, with the exception of water supply, the infrastructure needs is a big one. There is a great array of things that we could look at. Before we dedicate the efforts of this committee, I would want to really take our time in deciding what to embark on. In the City and County of San Francisco, infrastructure needs have been dominantly present here for thirty years that I know of. There has been study after study done, and I would like to find out why some things have not been implemented. Are we on a particular time limit? Do we have to decide what we are going to look at next?

Ms. Young stated no, you don't have a timeframe. You could decide which of these areas you would like to look at and have a discussion amongst yourselves in terms of whether or not you wanted to do service reviews of any other areas that have been delineated by Ms. Miller.

Commissioner Hall stated, I would imagine we would want to wait until after the November ballot to really start looking at what transpires.

Ms. Young stated once you have the opportunity to adopt your Resolution at the next meeting, the other items could be folded into your planning process as well.

Chairperson Gonzalez asked if for the next meeting Ms. Young might ask the various Board and Commission members whether they would want to make a proposal related to what area of inquiry the LAFCo might go into.

Ms. Young stated she would be available to do that.

Commissioner Schmeltzer asked what SFLAFCo's budget year looks like.

Ms. Young stated, \$449,000. There are some discrepancies between the fact that our project budget may have been continued over as opposed to adopting the new budget. She has been looking into that issue for the last couple of days. What the Commission has adopted as of this year, June, was \$458,450 for the fiscal year. That includes ongoing salary, attorney fees, as well as stipend fees. There is probably \$250,000 that is discretionary.

Commissioner Schmeltzer asked if the Commission were to adopt this Resolution at the next meeting and wanted to move forward on some of the studies recommended and the Resolution and or looking at other work plans or service studies available, if it would be out of that budget.

Ms. Young stated there would be funds available.

Commissioner Hall stated, so we have \$449,000 that we know of.

Ms. Young stated, during the budget process earlier this year, and that is the discrepancy that we are working with, it was my understanding in working with the Mayor's and the Controller's Office, that what we have still in reserve would be allocated towards this year's budget. This year we were separating ourselves from the Board of Supervisors in having a complete budget, and that would be rolled into the amount that would make up the \$458,00 or \$450,000. What we see now in our budget is about \$716,000. The concern I have is to make sure what our actual budget is. Did they not reduce the budget accordingly? We are working to make sure we are operating with the exact amount of money that the LAFCo Commission has available to it.

Commissioner Hall stated that the Commission can do serious inquiry with that.

Commissioner Fellman asked, in terms of our future work plan, as I understand it, we will put forth proposals for the next meeting regarding what should be emphasized. I do want to say that I think we've done a really good job in distilling a lot of information and coming up with these recommendations. It will be useful, whatever the direction the City and County takes after November, to look at our recommendations and not lose the momentum we have on power, so our study doesn't become another study without any implementation factors.

Chairperson Gonzalez asked if we could set up another meeting in two weeks?

Ms. Young discussed possible meeting dates. See Future Agenda Items.

Ms. Young stated that the Commission received information about the annual CALAFCo conference from November 13 - 15 in Santa Barbara in which all LAFCo's will be present. We do have about \$3,000 available and recommended that one or two Commissioners attend the conference. You may contact staff if interested in attending for further information about the conference.

No Public Comment

5. Future Agenda Items.

Public Comment

Sylvia Johnson stated that she would like to be more informed about the ideas that are being presented.

Public comment closed.

Ms. Young stated that the issue is whether the Commission would want to meet on October 11th. Ms. Miller would not be available.

Commissioner Schmeltzer stated she would be available the following week, October 18th.

Ms. Young stated she would not be available on October 4. She would check with Mr. Maynor to see if he would be available for a meeting on the 11th, since Ms. Miller would not be able to attend.

Ms. Young stated she would check everybody's schedule and set up a meeting.

6. Public Comment on Items not on the Agenda.

No public comment. Public comment closed.

7. Adjournment.

The meeting of the San Francisco Local Agency Formation Commission adjourned at 2:35 p.m.

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AGENDA

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Special Meeting
Friday, October 18, 2002 at 2:00 p.m.
City Hall, Room 263

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call.
2. Approval of Minutes for the Commission Meeting of September 20, 2002 (Action Item).
3. Resolution adopting the Energy Services Study and Recommendations for Electric Utility Service (Action Item).
4. Discussion and action regarding the San Francisco Local Agency Formation Commission's Future Work Plan (Discussion and Action Item).
5. Biennial review of San Francisco LAFCo's Conflict of Interest Code (Informational Item).
6. Future Agenda Items.

7. Public Comment on Items not on the Agenda.

8. Adjournment.

IMPORTANT INFORMATION

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MINUTES
Special Meeting
Friday, October 18, 2002, 2:00 p.m.
City Hall, Room 263

Chairperson: Commissioner Gonzalez; Vice Chairperson: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chairperson Gonzalez at 2:09 p.m.

Members Present: Chairperson Commissioner Gonzalez, Commissioners Ammiano, Hall, and Fellman.

Member Absent: Vice-Chairperson Commissioner McGoldrick and Commissioner Schmeltzer.

Gloria L. Young, Executive Officer and Nancy Miller, Esquire were noted as present.

2. Approval of Minutes for the Commission Meeting of September 20, 2002 (Action Item).

No Public Comment

Chairperson Gonzalez moved to approve the September 20, 2002 meeting Minutes. Duly seconded. The Minutes were unanimously approved with no objection.

3. Resolution adopting the Energy Services Study and Recommendations for Electric Utility Service (Action Item).

Public Comment

Mr. Landis Marttila, Business Representative with IBW 1245 stated that his associate Hunter Stern submitted a two or three page letter regarding his comments. One thing that was absent in his letter that he would like to get in the record is as follows: Although the study alludes to General Order 95 and 128, what the study does not allude to is General Order 165 for a rational reason. General Order 165 is an inspection and maintenance California Public Utilities Commission (CPUC) Code that is imposed on all of the privately-owned investor utilities in California. General Order 165 compels privately-owned investor utilities to do inspections, record those inspections, and make the results of those inspections and the follow-up repairs a matter of public record with the CPUC. IBW 1245 fears that a municipal will be in the interesting situation of policing itself if it buys a distribution system. They feel that is an onerous and difficult position to be in and believes there will probably be a deterioration in the distribution system because other legitimate priorities will come up regarding the City budget and the expenditures to maintain it, which is a very expensive proposition.

Chairperson Gonzalez asked Mr. Marttila if he or Local 1245 represents employees that work with public utilities.

Mr. Marttila stated that he represents employees that work with PG&E and various municipal utilities throughout the state, between 19,000 and 20,000 members.

Chairperson Gonzalez asked Mr. Marttila if he wants to reconcile the General Order, the concern that he is raising at today's meeting, the representation that has been given to the unions working for public utilities.

Mr. Marttila stated that he does not understand the question. He was commenting on the Energy Services Study. The Energy Services Study refers to construction standards. There is a chart that refers to similarities and differences between a public municipal utility and a privately-owned utility. What is absent there is essentially any illusion to the Maintenance Order, State General Order 165, which they worked very hard on. He personally worked on that Order to get viable inspection of maintenance regulation on the books with the State of California.

Nancy Miller, Esquire stated that she believes that Mr. Marttila is saying that he has a concern that if there was a municipal utility, that that particular Order isn't subject to them. However, she works for SMUD and does not totally concur with the conclusion that that means that maintenance is perhaps done at a lesser scale.

Commissioner Ammiano asked if it is scale or standard?

Ms. Miller stated that standard would be a better word.

Chairperson Gonzalez asked Mr. Marttila if he represents employees that work with the public utilities and if he is alerting the Commission that there is something missing from the study.

Mr. Marttila stated, yes. Also, the other paramount piece is that even if you include a reference to General Order 165 like you have to the construction standards that dictate what size pull, what size wire, what you have to do under General Order 195 and 128. The reason General Order 165 works is that there are sanctions. The State of California will fine them or require Southern Cal Edison in an expedited fashion to make necessary repairs if they are out of compliance with General Order 165. He does not know how the City can impose sanctions on its own entity if they do acquire the electric distribution system.

Chairperson Gonzalez asked Ms. Miller why the state wouldn't be stepping in and handling the standard issue.

Ms. Miller stated that the state has certain minimum standards. What Mr. Marttila is saying is that in terms of recourse with private-investor utilities, many times rate payers don't have recourse where there might be failure to maintain. In the public utility system, basically what happens is a march on City Hall. There is a different kind of check and balance. In a municipal utility, you have the political aspect which you don't have access to in the private-investor utility.

Commissioner Fellman asked Ms. Young if with respect to the letter from Mr. Stern, even though the public-comment period had been closed on the report, if his memo could be incorporated as one of the official comments on the report.

Gloria L. Young, Executive Officer stated that staff would incorporate Mr. Stern's memo that the Commission has before them today as part of the public comments on the Energy Services Study. In addition, Commissioner Schmeltzer stated that she regrets that she is not here today, but strongly wanted to encourage the adoption of the Resolution before you today.

No further public comment. Public comment closed.

Chairperson Gonzalez stated that the Commission was not able to vote on the item because of the manner in which it was previously agendaized and asked if the Commissioners had any comment on the Resolution. He stated to Commissioner Hall that the Commission is going to vote on the Resolution adopting the Energy Services Study. The larger question is what the directive is for the agency in the future and what the Commission is interested in doing in the future.

Commissioner Hall stated that he would have to vote against the Resolution because of his stand on the November ballot measures D and E referencing the

Resolved clause on page 3 of the proposed Charter Amendments. He stated that since his vote would not alter the direction of the result of the vote, the Commission understands that voting for the Resolution would be inconsistent with his position.

The Resolution adopting the Energy Services Study and Recommendations for Electric Utility Service was adopted by the following vote:

AYES: Commissioners Ammiano, Fellman and Chairperson Gonzalez

NOE: Commissioner Hall

ABSENT: Vice-Chairperson McGoldrick and Commissioner Schmeltzer

4. Discussion and action regarding the San Francisco Local Agency Formation Commission's Future Work Plan (Discussion and Action Item).

Ms. Young stated that the Commissioners have in their packets a memo indicating their desires for LAFCo's future work plans. The primary comments submitted by the Commissioners were to follow-up with the recommendations the Commission just approved as a part of the Resolution. Secondly, there was interest in looking at participating with the City in the study of a tidal current generation, as well as the implementation of the use of recycled water. As a part of this request, a request was made to R. W. Beck to provide the Commission with a letter that is included in the packet that identifies the costs if the Commission wishes to move ahead with the recommendations made in the Energy Services Study. R. W. Beck did indicate that the San Francisco Public Utilities Commission had contracted with them to do the Risk Management Plan, and that would provide a portion of the work that would be required if the Commission wishes to go forward with the risk management portion of the recommendations. Commissioner Hall had indicated that one of his interests would be reviewing the services provided by publicly funded non-profits. Legal counsel was asked to provide us with information regarding the possibilities.

Ms. Miller stated to the extent that you have non-profits that are receiving public funds to provide a municipal service, you may study that service. It's called a municipal service review. It is done in other LAFCo's where government is contracting with non-profit entities.

Commissioner Hall asked if Ms. Miller knows which jurisdictions have undertaken such a study.

Ms. Miller stated that she could provide the Commission with a list. She is familiar with a study done in Sacramento about twelve years ago on some of the water providers, which are private companies. Then they also had a study that was done on non-profits that provided recreation services to the City through Parks and Recs to park districts. She can provide other examples from other LAFCo's.

Commissioner Hall stated then it is entirely possible that this agency could undertake a study of non-profits providing a service in "xyz" field.

Ms. Miller stated, yes. There are a lot of cities, particularly smaller newer cities that are called contract cities that contract out for a lot of their services. You will see many times the LAFCo's when they undertake their municipal service reviews are actually not looking at a municipal entity, they are looking at whoever the contractor is that is providing the service.

Commissioner Hall stated it is all under the title "municipal services review."

Ms. Miller stated that is how you would want to structure it.

Commissioner Hall stated that was his strongest recommendation. Another recommendation is regarding recycled water.

Ms. Young stated that she did not mention Commissioner Fellman's other item which was to explore desalinization. In addition, correspondence has been received that there will be a great deal of discussion at the LAFCo conference in Santa Barbara about municipal service reviews and what is going on in other organizations.

Ms. Miller stated the state has actually just issued Municipal Service Review Guidelines. It's a draft and fairly lengthy, but it is available.

Ms. Young stated that we would request a copy to send to the Commissioners.

Chairperson Gonzalez stated to Ms. Miller that it would seem that much of the continuing work of the Resolution that has been adopted in large part necessitates entering into further contracts, perhaps with R. W. Beck to do further work. The actions that LAFCo, in terms of the kind of role that we play, is somewhat different than what it would be if we took up let's say public hearings related to municipal service reviews and other forms of energy. It seems that the LAFCo can do both. We could essentially have an entity doing this kind of study work that would later report to us, but we ourselves could be conducting hearings in other areas of government efficiency.

Ms. Miller stated that makes sense. You are under the law required to do some municipal service reviews. You are supposed to periodically be doing those. In addition, you have the proposal that you received two years ago, and the study is really an outgrowth of the issue of utility service in the City and County. It's entirely appropriate to look at different kinds of studies as a LAFCo.

Commissioner Fellman asked what the LAFCo's legal obligations are with respect to municipal services review.

Ms. Miller stated that LAFCo is to periodically review a City's municipal services every five years. It's a global term. It is typically tied to their Sphere of Influence,

which really isn't germane to your situation here because you are a City and County. Typically, what other LAFCo's are doing every five years is deciding how big a City should get ultimately, should there be other cities, and what the continuing role of the County is. That is where they are looking at their municipal services review. You are also supposed to, as you decide periodically, to review municipal services that are being provided--Recreation and Park, Health, Welfare, and Housing. There's no statutory requirement that you look at those specific services at any particular time, but you do have the authority to look at it whenever you deem necessary.

Chairperson Gonzalez asked Ms. Young and Ms. Miller to assist in the individual topic areas that the Commission may wish to explore and get into. Perhaps we should be thinking about getting our colleagues at the Board of Supervisors to weigh on whether or not they are interested in having us take a particular direction. I know a number of us are Board of Supervisors. To the extent that there is that existing relationship, it would be helpful to introduce a Resolution at the Board saying that the Board of Supervisors would like to see the LAFCo pursue certain areas, let's say municipal service reviews or some of the issues related to the R. W. Beck original findings. The idea is to essentially have a few more eyes take a look at what the future has for LAFCo.

Ms. Young stated that as part of the Cortese-Knox-Hertzberg bill, the SF LAFCo Commission did adopt as their Sphere of Influence the General Plan of the City and County of San Francisco, which includes looking at the areas of land use, parking, transportation, and economic development. Chairperson Gonzalez asked that the request for information from the Work Plan be distributed to the other Board members so they would have an opportunity to input their comments. The Commission might want to consider having a joint meeting with one of the Subcommittees of the Board of Supervisors or the Board of Supervisors once the Commission determines which issues to move into in conjunction with the Energy Plan.

Chairperson Gonzalez stated that he was thinking less of having a joint meeting because there are a number of LAFCo Commissioners that are on the Board. LAFCo can work on everything that has been proposed--there is no problem. Before the Commission continues on a particular path, it would be beneficial to open it to a discussion at the Board and see what other members are thinking. It could very well be that we might be surprised about something that we are not thinking of that might be helpful. He would not be surprised if any one of the various suggestions that had been made would be approved.

Ms. Young stated that perhaps putting something before the Board of Supervisors in the form of a Resolution or legislation would engender the same kind of participation. Her concern is that we sent out a memo, and we haven't gotten any response from the other Board members other than the ones that sit on the LAFCo Board. Perhaps

some other opportunity to meet in a different way or to have it on the Board's agenda so there is the dialogue that needs to occur.

Chairperson Gonzalez stated that one way of doing it would be to offer one Resolution instead of separate Resolutions. The Resolution would say that these are the issues that LAFCo is considering pursuing and ask if the Board concurs.

Ms. Young stated that could be done once the Commission determines whether these or other items are the ones they wish to pursue.

Ms. Fellman stated that she would request that the Commission go through a public comment period. She thinks it is a good idea to go through the Board of Supervisors and then put together a Work Plan that is available for public comment. We do have a number of dollars left in our budget, and we want to make sure that we spend that in the best way we can.

Commissioner Hall asked Chairperson Gonzalez for clarification on his recommendation. Once the Commission decides what general areas the LAFCo wants to look at, would the Commission send a notification asking for comments from the Board, or would there actually be a hearing?

Chairperson Gonzalez stated that he is thinking more about a Resolution that the Commission would put on the agenda for Board adoption without Committee reference. If there is a member that wants it to go to the Board Committee, that would be fine. That discussion should be expedited. He certainly has not heard anybody make a suggestion about an area of inquiry that he thinks is not appropriate. All of these items fit well as to what the charges the LAFCo has. He asked Ms. Young to put together a Resolution to consider at the next LAFCo meeting. The Commission can review the wording and then have someone introduce it at the Board.

Ms. Young agreed to put together a Resolution to consider at the next LAFCo meeting.

Ms. Fellman stated that in putting together the Resolution, there is overlap in what the Commissioners wanted. There is really a water topic there that addresses areas that might not otherwise be addressed in City and County policies. Perhaps we could group all the water/energy nexus. Tidal generation. Desalination is very popular now in Southern California as a water source, which always entails in the new proposals a co-generation plant associated with it, so you are getting it cheaper there. Recycled water is another thing you can use. Maybe you should clarify what your recycled water is.

Commissioner Hall stated that we are the last county in the state that doesn't have a recycled water program. It is going to happen sooner or later. We might as well dictate or study at this working group how it should be done. If we follow tradition

around here, it is probably going to be done the wrong way. It's going to happen sooner or later. San Mateo County just adopted theirs, and there were two counties that did not have a complete recycled water program, of which we are still remaining. I think it's an excellent opportunity for us to do something for the City and take the lead on this issue. Desalination is certainly important. He would rank it second behind recycled water because of its necessity. The sooner we deal with it the better we are able to address the problems all the way from Hetch Hetchy to Lake Merced to our water supply to how we are using water to irrigate our parks and what not.

Commissioner Fellman stated that she thinks that is a separate topic, and it would be worth some elaboration. With Commissioner Hall's summary, she thinks it would be useful to put before the Board.

Public Comment. No public comment. Public comment closed

Chairperson Gonzalez stated that we would agendize this item in the future.

5. Biennial review of San Francisco LAFCo's Conflict of Interest Code (Informational Item).

Ms. Young stated that LAFCo is required to adopt LAFCo's Conflict of Interest Code every two years and asked if there were any changes to the Code. This item is before the Commission as an informational item. There is no need for changes, so it is provided for the Commission's information and comments.

Chairperson Gonzalez asked Ms. Miller if the Commission would simply approve the item.

Ms. Miller stated that since there was no change, there is no approval necessary.

Public Comment. No public comment. Public comment closed.

6. Future Agenda Items.

Chairperson Gonzalez stated that he talked with Ms. Young informally about discussing the terms of office of the members of the LAFCo. He knows that was somewhat open-ended. Rather than drawing lots, he would be inclined to adopt a term of office that applies to everyone equally and then when we get to the expiration of that date, figure out what we are doing. He would be interested in hearing Ms. Young's thoughts on the subject.

Ms. Young stated that the Commission did not set standard terms and at some point has to do that. We could bring back a Resolution, a change in policy. We have not had a chance to talk to legal counsel about this issue, but we will bring it up after discussion at this meeting.

Chairperson Gonzalez stated that he was suggesting that the Commission try to resolve the question of the LAFCo terms of office. It was something that was left open-ended because there was some degree of uncertainty as to how long the LAFCo would be in operation.

Ms. Young stated that the terms are four-year terms, but we do not have Commissioners that are staggered. Generally, you draw lots and some of the Commissioners are two years and some are four years so you can get continuity and changes. That did not happen.

Chairperson Gonzalez stated that Commissioner Fellman made reference to the budget, and we should probably have an update on where we are.

Ms. Young stated that a budget update will be put in the Commission packet for the next meeting, as well as a Resolution detailing the Commission's comments about the future Work Plan that the Commission can review and comment on. We also need to have a closed session agendized as well.

Chairperson Gonzalez stated that the other item he was thinking of was the hearing before the Public Works and Protection Committee recently. Supervisor Daly called a hearing recently, and it addressed reporting that appeared in the Bay Guardian around the Long Island Power Authority. There was an economist that apparently looked at the extent to which a publicly-owned utility was able to invigorate the local economy because the local dollars essentially stayed in that economy. He thinks there are a number of assumptions made in the data to reach that conclusion. He is wondering if there is some way that we can look into the question of whether or not those calculations made sense. The testimony was fairly compelling. The data had been put together by a professor, Irwin Kellner, at Hofstra University.

Ms. Young stated that she would get the information for the Commission regarding this issue. A couple of years ago, there were representatives from the Long Island Authority at the APPA meeting that she attended. We do have the ability to get someone who is knowledgeable about the subject speak before the Commission.

Chairperson Gonzalez stated that in particular, there was a position that for every dollar in the local public authority, there was a multiplier of five in terms of the amount of money that was stimulated in the local economy.

Ms. Young stated that it sounds familiar, and that we may even have those records on file. When the subject of municipal utilities was at the forefront a couple of years ago, there were a number of people at the APPA meeting that spoke and documentation was handed out. She will check the files to see if we have the information.

Chairperson Gonzalez stated there was continuing discussion about representation by the City Attorney. He doesn't have the legal case in front of him. The City Attorney for the City and County of San Francisco, Mr. Herrera, made available to him an interesting case that he believes was decided in San Diego or one of the other counties here in California. It related to what had happened vis-a-vis the conflict that his office declared in the litigation over the Elections Commission and Civil Service Commission. Although he has been a critic of the requirement to declare a conflict, the case he had provided appeared to so conclude. He had problems with some of the reasoning in it. It was interesting that much of the reasoning would apply to a LAFCo, the idea of a Civil Service Commission had a certain quasi-independent function that he thinks the LAFCo would qualify under. What came to mind was that it would be a strong argument for the Commission's need to continue a relationship with outside counsel, but not necessarily for everything that we do. In the event that we are ever in a situation that the City Attorney feels that they need to declare that kind of conflict it would be better that the Commission is not in a position where we are starting a whole new relationship with outside counsel. It would be better if we manage over time to keep a relationship going so there is not this startup energy going out looking for a new attorney.

Ms. Young stated that we currently have an ongoing contract with outside counsel. The inside legal counsel support item was deferred until after November. We weren't planning on bringing that back on the agenda until after the first of the year.

Chairperson Gonzalez stated that he would forward the case to Ms. Young and asked Ms. Miller if at some future date we could have a discussion.

Ms. Miller stated that she thinks she knows the case. It is entirely appropriate for the City to say there might be a conflict because in fact you might be reviewing an entity or a department that already has City Attorney representation. She works with County Counsel, City Attorneys with LAFCo. You can decide what you want to do. You can have an independent counsel, you can have two. You can use the City Attorney when you want, use an independent counsel when you want or simply use the City Attorney. It is up to the Commission legally. You can do all of the three. The City Attorney would have to let you know that there is the potential for the conflict.

Ms. Fellman asked if in the meantime we are on a month-to-month contract basis with our existing counsel.

Ms. Young stated that it is ongoing until it allows for the thirty-day termination period, and we have not terminated.

Chairperson Gonzalez asked for a date of when we should have a future meeting related to the Resolution that we would want presented at the Board.

Ms. Young stated that if the Commission wants to meet in November, we could prepare the Resolution and have it ready.

Chairperson Gonzalez recommended the second week of November.

Public Comment. No public comment. Public comment closed.

7. Public Comment on Items not on the Agenda.

Female speaker asked if the Commission could introduce a new Resolution to preserve and stop the eviction of the Musee Mecanique, the Ordinance amending Sections 3305, 3307, and 3310 of the Police Code to prohibit discrimination against business establishments. The File Number is 021463. She handed in a petition to the LAFCo Commission Clerk regarding ballot-measure M that was originally scheduled for the November 5, 2002 election. It was not adopted and refused to be put on as a ballot measure. The people of San Francisco, California want the Musee Mecanique to stay open, not be evicted and to restore and not demolish the Cliff House by designating the whole area historic. Also, to ask that funding be provided by the federal government and other organizations for this private business sector to restore and not demolish the Musee Mecanique's Big Camera, snack bar and Sutro Baths.

No further public comment. Public comment closed.

Chairperson Gonzalez stated that a number of members of the Board are concerned about the issue, but he wouldn't want to pursue this issue at the LAFCo unless somebody feels otherwise.

Ms. Young stated that she concurred with Chairperson Gonzalez.

Chairperson Gonzalez stated that the public speaker is talking about an issue that many Board members are concerned about.

8. Adjournment.

The meeting of the San Francisco Local Agency Formation Commission adjourned at 2:47 p.m.

San Francisco Local Agency Formation Commission

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AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

Special Meeting
Friday, November 8, 2002 at 3:30 p.m.
City Hall, Room 263

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick

Members: Commissioners Ammiano, Hall and Schmeltzer

Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call.
2. Approval of Minutes for the Commission Meeting of October 18, 2002 (Action Item).
3. Resolution Requesting Support of the Board of Supervisors for the Future Work Plan of the San Francisco Local Agency Formation Commission (Discussion and Action Item).
4. Resolution adopting Terms of Office for the San Francisco Local Agency Formation Commission (SFLACo) and Amendment to the SFLACo's General Policies and Procedures, Section 1.22 (Discussion and Action Item).
5. Information regarding Long Island Power Authority's Data Assumptions (Discussion Item).

6. San Francisco Local Agency Formation Commission's (SFLAFCo's) Budget Update (Discussion and Action Item).
7. Direction to the Executive Officer to pursue entering into a contract with R. W. Beck to study the follow-up recommendations listed in the Resolution adopting the Energy Services Study (Discussion and Action Item).

8. CLOSED SESSION

CONFERENCE WITH LEGAL COUNSEL

Motion that the San Francisco Local Agency Formation Commission convenes in closed session. Conference with Legal Counsel – Existing Litigation (Government Code Section 54956.9(a)).

E. J. Simpson v. Local Agency Formation Commission of the City and County of San Francisco: San Francisco Superior Court Case No. 412427.

Question: Shall this Motion be ADOPTED?

PUBLIC COMMENT

ADJOURN TO CLOSED SESSION

After a closed session, if one occurs, the Chairperson shall (1) request the Legal Counsel to identify the subjects discussed in the closed session, and (2) direct the Clerk to report the vote taken on any motion in the closed session.

[Elect To Disclose]

Motion that the SF LAFCo finds it is in the public interest to disclose information discussed in closed session, and directs the Chairperson immediately to disclose that information.

[Elect Not to Disclose]

Motion that the SF LAFCo finds that it is in the best interest of the public that the Board elects at this time not to disclose its closed session deliberations concerning the litigation listed above.

RETURN TO OPEN SESSION FOR ANY REPORTABLE ACTION

9. Future Agenda Items.

10. Public Comment on Items not on the Agenda.

11. Adjournment.

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee Clerk of LAFCo, San Francisco Board of Supervisors, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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Both the Committee Room (Room 263) and the Legislative Chamber are wheelchair accessible. The closest accessible BART Station is Civic Center, three blocks from City Hall. Accessible MUNI lines serving this location are: #42 Downtown Loop, and the #71 Haight/Noriega and the F Line to Market and Van Ness and the Metro stations at Van Ness and Market and at Civic Center. For more information about MUNI accessible services, call 923-6142.

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Posted:

San Francisco Local Agency Formation Commission

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MINUTES

Special Meeting
Friday, November 8, 2002, 3:30 p.m.
City Hall, Room 263

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Chairperson: Commissioner Gonzalez; Vice Chairperson: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Acting Chairperson Commissioner Ammiano at 3:39 p.m.

Members Present: Vice-Chairperson Commissioner McGoldrick, Commissioners Ammiano, Hall, Schmeltzer, and Fellman.

Member Absent: Chairperson Commissioner Gonzalez

Gloria L. Young, Executive Officer and Nancy Miller, Esquire were noted as present.

2. Approval of Minutes for the Commission Meeting of October 18, 2002 (Action Item).

Commissioner Ammiano moved to approve the October 18, 2002 meeting minutes; Commissioner Hall seconded. The meeting minutes were unanimously approved with no objection.

No Public Comment

3. Resolution requesting Support of the Board of Supervisors for the Future Work Plan of the San Francisco Local Agency Formation Commission (Discussion and Action Item).

Commissioner Hall moved that the Resolution be forwarded to the Board of Supervisors with recommendation for approval. Duly seconded; no objection. The Resolution requesting support of the Board of Supervisors for the Future Work Plan of the San Francisco Local Agency Formation Commission has been adopted.

No public comment.

4. Resolution adopting Terms of Office for the San Francisco Local Agency Formation Commission (SFLAFCo) and Amendment to the SFLAFCo's General Policies and Procedures, Section 1.22 (Discussion and Action Item).

Commissioner Ammiano asked if terms of office were set for the Commissioners.

Gloria L. Young, Executive Officer stated that the terms are within the Resolution.

Commissioner Hall moved to adopt the Resolution; duly seconded. The Resolution adopting terms of office for the San Francisco Local Agency Formation Commission and Amendment to the SFLAFCo's General Policies and Procedures, Section 1.22 has been adopted.

No public comment.

5. Information regarding Long Island Power Authority's Data Assumptions (Discussion Item).

Gloria L. Young, Executive Officer stated that Chairperson Commissioner Gonzalez asked that staff provide the Commission with information about the Long Island Power Authority. The information is in your packet. Staff is available for questions.

The item has been continued to the next Local Agency Formation Commission meeting.

No public comment.

6. San Francisco Local Agency Formation Commission's (SFLAFCo's) Budget Update (Discussion and Action item).

Gloria L. Young, Executive Officer stated that the budget update is being provided to the Commission as they discuss the future work plan in terms of whether the Commission would like to enter into a contract with R. W. Beck. At the last meeting,

the Commission requested a budget update. Ms. Young stated that no action is required.

Commissioner Fellman asked Ms. Young to summarize the budget.

Ms. Young stated the budget shows permanent salaries for our Commission Clerk. The premium pay is pay that has been negotiated in the contract for the Executive Officer. We have just expended about \$2500 from our travel budget for both Commissioner Hall and the Executive Officer who will be attending the CALAFCo conference next week. You currently have about \$250,000 in professional services that includes funds for our legal counsel and funds if the Commission chooses to move forward with entering into a contract with R. W. Beck and resolution adopting the Future Work Plan. At this point from the current budget update memo she received today, the balance in the budget is \$302,994.00.

Ms. Fellman asked if that is until the end of Fiscal Year 2003.

Ms. Young stated that is for Fiscal Year 2002-2003. July 1st would start the next fiscal year.

No public comment.

7. Direction to the Executive Officer to pursue entering into a contract with R. W. Beck to study the follow-up recommendations listed in the Resolution adopting the Energy Services Study (Discussion and Action Item).

Ms. Young stated that Mr. Bell from R. W. Beck is here to address the letter that we received. The legal counsel, Nancy Miller and herself met with Mr. Bell last week based on the direction of the Commission to look at what would be the possible future studies that the Commission might want to undertake and also in what order and timelines designated for those studies. Also, looking at what would be the pursuit of the studies after the elections process if this occurred, whether it would make sense to do all or some of the recommendations and which ones we should take. Mr. Bell can address these issues.

Mr. Mike Bell, R. W. Beck stated they put together a recommendation letter before the election and was a "menu" of potential items based upon the previous work that was done for the LAFCo and upon the findings that the LAFCo made on the Energy Services report. They attempted to identify any number of areas, a budget for each of those items, and an estimated timeline as well as personnel that would be assigned for those projects. Depending upon the desire of the LAFCo, any of these could be mixed or matched. Some of these could be discarded. Some may even be of a smaller scope than what was identified in the letter. They attempted to raise talking points for the Commission's discussion and identify that they are prepared to address those areas should the Commission choose.

Ms. Young suggested that if the Chair wishes to direct her as the Executive Officer to enter into a contract with R. W. Beck, that prior to that they have the Subcommittee that they previously had identify the components. Perhaps Commissioner Schmeltzer and Fellman would agree to look at this process and work with her, legal counsel, and R. W. Beck as to what would be the appropriate study mechanisms and then bring it back to the Commission.

Acting Chairperson Ammiano concurred.

Commissioner Fellman stated she would like to discuss this item in terms of sequencing and direction given Tuesday's election and what we have now with AB117 going into law as of January 1, 2003. That's the aggregation bill by Assemblywoman Migden.

Ms. Young asked to meet as a Subcommittee to discuss those items.

Commissioner Fellman recommended that the Commission get some public input of what we should do next and perhaps put out a call for comments. We can come up with an approach. We have had some active followers of our process, and there may be other people who are interested in asking us to study particular things out of our Energy Services Study.

Commissioner Schmeltzer asked if Commissioner Fellman is suggesting asking for comment on the six items listed in the R. W. Beck letter.

Commissioner Fellman stated or there may be other items that people want to look at. We have this concept of MSR and we may want to direct that to the Public Utilities function within the City and County.

Commissioner Schmeltzer asked if there should be a public comment period on this item during the next LAFCo meeting?

Nancy Miller, Esquire stated those are all very good ideas. She thinks it would be good to meet with the Task Force and define a plan of how we're going to do the public input. We will have background materials which would be the seven items that come out of the R. W. Beck report and perhaps the Subcommittee recommendation, have a public hearing on that, further define it, and go from there.

Commissioner Fellman agreed. She asked how the Resolution regarding LAFCo's Future Work Plan being forwarded to the Board of Supervisors would fit into the process.

Ms. Young stated that this Resolution would be forwarded to the Board of Supervisors. They can do a number of things. They can adopt it on the Adoption Without Committee Reference calendar, or they could send it to a Committee where there would be a hearing generating the public to come in for discussion. If the

Subcommittee met ahead of that process, we would be a part of what occurs. In addition, Commissioner Hall and herself will be attending the CALAFCo conference next week and will bring back any MSR information they receive. She recommended having the Subcommittee with staff meet first to work out how the process should move forward, set the public hearings, and then follow-up with the community input process.

Commissioner Fellman requested that the Commission support a survey of interested stakeholders as part of the Committee work before the Commission receives public input. We have an identified group of parties who are interested in our process, but also parties who are interested in the public power issues for the City and County. We could survey them as our next step so we are addressing issues that are pertinent when we do our proposal.

No public comment.

8. CLOSED SESSION

CONFERENCE WITH LEGAL COUNSEL

Motion that the San Francisco Local Agency Formation Commission convenes in closed session. Conference with Legal Counsel – Existing Litigation (Government Code Section 54956.9(a)).

E. J. Simpson v. Local Agency Formation Commission of the City and County of San Francisco: San Francisco Superior Court Case No. 412427.

Question: Shall this Motion be ADOPTED?

PUBLIC COMMENT

ADJOURN TO CLOSED SESSION

The San Francisco Local Agency Formation Commission convened into closed session at 3:53 p.m. without objection.

After a closed session, if one occurs, the Chairperson shall (1) request the Legal Counsel to identify the subjects discussed in the closed session, and (2) direct the Clerk to report the vote taken on any motion in the closed session.

[Elect To Disclose]

Motion that the SF LAFCo finds it is in the public interest to disclose information discussed in closed session and directs the Chairperson immediately to disclose that information.

[Elect Not to Disclose]

Motion that the SF LAFCo finds that it is in the best interest of the public that the Board elects at this time not to disclose its closed session deliberations concerning the litigation listed above.

RETURN TO OPEN SESSION FOR ANY REPORTABLE ACTION

The San Francisco Local Agency Formation Commission reconvened into open session at 4:00 p.m.

Nancy Miller, Esquire stated that a discussion was held during closed session regarding the matter of litigation that is before the Commission. There was no vote taken and there was no motion on the matter.

Vice-Chairperson McGoldrick moved that in the best interests of the public that the Commission elect not to disclose any information discussed in closed session; Commissioner Schmeltzer seconded.

9. Future Agenda Items.

Future agenda items were previously discussed.

No public comment.

10. Public Comment on Items not on the Agenda.

No public comment.

11. Adjournment.

The meeting of the San Francisco Local Agency Formation Commission adjourned at 4:05 p.m.

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San Francisco Local Agency Formation Commission

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AGENDA

Note: Each item on the Consent or Regular agenda may include explanatory documents, including Executive Officer report and public correspondence. These items will be available for review at City Hall, Room 244, Reception Desk.

Special Meeting
Friday, December 20, 2002 at 10:00 a.m.
City Hall, Room 263

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate Members: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call.
2. Approval of Minutes for the Commission Meeting of November 8, 2002 (Discussion and Action Item).
3. Discussion and approval of Indemnification Insurance for SFLAFCo Commissioners and Executive Officer (Discussion and Action Item).
4. Commissioner Ammiano's Request that SFLAFCo Provide Direction to the Executive Officer to Work with the San Francisco Public Utilities Commission (SFPUC), the Department of Environment (DOE) and the City Attorney to Develop a Scope of Work, Select and Contract With a Consultant to Analyze the Feasibility of Becoming a Community Aggregator and Develop a Plan Required for the City to Exercise its Option to Become a Community Aggregator under Chapter 838 of 2002, or Assembly Bill 117 (Migden), the California Community Choice of Energy Law (Discussion and Action Item).
5. Discussion and approval of the Proposed SFLAFCo's Work Plan Approach and Next Steps (Discussion and Action Item).

6. Discussion and action regarding the Mayor's Budget Office Request for a Three Percent Cut to the FY 2002-03 Budget to Assist in Balancing the Budget (Discussion and Action Item).
7. Request from Commissioner Gonzalez to Discuss and Act on Meeting Twice a Month on the First and Third Fridays. (Discussion and Action Item).
8. Future Agenda Items.
9. Public Comment on Items not on the Agenda.
10. Adjournment.

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to LAFCo, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of LAFCo members. Any written comments should be sent to: Committee Clerk of LAFCo, San Francisco Board of Supervisors, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the Committee Clerk by that time may be taken directly to the hearing at the location above.

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Both the Committee Room (Room 263) and the Legislative Chamber are wheelchair accessible. The closest accessible BART Station is Civic Center, three blocks from City Hall. Accessible MUNI lines serving this location are: #42 Downtown Loop, and the #71 Haight/Noriega and the F Line to Market and Van Ness and the Metro stations at Van Ness and Market and at Civic Center. For more information about MUNI accessible services, call 923-6142.

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San Francisco Local Agency Formation Commission

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MINUTES

Special Meeting
Friday, December 20, 2002, 10:00 a.m.
City Hall, Room 263

Chairperson: Commissioner Gonzalez; Vice Chairperson: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chairperson Commissioner Gonzalez at 10:09 a.m.

Members Present: Vice-Chairperson Commissioner McGoldrick, Commissioners Ammiano, Hall, Schmeltzer, and Fellman.

Member Absent: None

Gloria L. Young, Executive Officer and Nancy Miller, Esquire were noted as present.

2. Approval of Minutes for the Commission Meeting of November 8, 2002 (Action Item).

Chairperson Commissioner Gonzalez moved to approve the November 8, 2002 meeting minutes; duly seconded. No public comment. The November 8, 2002 meeting minutes were unanimously approved with no objection.

3. Discussion and approval of Indemnification Insurance for SFLAFCo Commissioners and Executive Officer (Discussion and Action Item).

Gloria L. Young, Executive Officer stated that the issue of indemnification insurance for Commissioners and the Executive Officer was discussed at the California Local Agency Formation Commission's Annual Conference. Upon her return, she checked whether indemnification insurance had been instituted for the Commissioners and realized that it hadn't. If the Commission approves this item, we will process insurance coverage. It is \$100.00 per year for \$25,000 standard coverage for each Commissioner and the Executive Officer.

No public comment. Public comment closed.

Chairperson Commissioner Gonzalez stated that the Commission is to direct the Executive Officer to secure indemnification insurance and asked how long it would take to secure the insurance.

Ms. Young stated that as soon as the Commissioners sign the application forms, staff will begin the process. It is her understanding that it takes from twenty-four to thirty-six hours to secure the insurance after the forms are submitted to the Risk Management Unit.

Commissioner Hall asked what the necessity is for indemnification insurance.

Ms. Young stated that the members of the Commission need to be covered to avoid any personal liability for contracting decisions that the Commission has or will make. One of the questions was whether as the Board of Supervisors, you had the coverage that also would cover you as LAFCo members and whether the public members would be covered. When we were at the conference in Santa Barbara, it was clear that several counties had issues with not having coverage, so Commissioners were personally liable. Considering the fact that this Commission enters into a number of contracts and makes many decisions, it appeared that it should be appropriate that all of the members be covered.

Commissioner Hall asked if the funds would come out of the LAFCo budget.

Ms. Young stated it would come out of LAFCo's existing funds, and we would shift monies from our existing budget to cover it.

Commissioner Hall asked what the estimated cost would be.

Ms. Young stated the estimated cost is approximately \$100 per Commissioner and \$100 for the Executive Officer. The total would be \$800 a year for \$25,000 coverage per member.

Commissioner Hall moved to approve the purchase of indemnification insurance for LAFCo Commissioners and Executive Officer; duly seconded. Unanimously approved with no objection.

4. Commissioner Ammiano's Request that SFLAFCo Provide Direction to the Executive Officer to Work with the San Francisco Public Utilities Commission (SFPUC), the Department of Environment (DOE) and the City Attorney to Develop a Scope of Work, Select and Contract With a Consultant to Analyze the Feasibility of Becoming a Community Aggregator and Develop a Plan Required for the City to Exercise its Option to Become a Community Aggregator under Chapter 838 of 2002, or Assembly Bill 117 (Migden), the California Community Choice of Energy Law (Discussion and Action Item).

Commissioner Schmeltzer asked if Items 4 and 5 could be heard together. The Commission agreed.

5. Discussion and approval of the Proposed SFLAFCo's Work Plan Approach and Next Steps (Discussion and Action Item).

Commissioner Ammiano stated that he has worked for the passage of a California community choice law since 1999 when the San Francisco Board of Supervisors passed a Resolution under his sponsorship calling for the state legislature to give us an alternative to PG&E. Under AB117, which is now Chapter 838 passed by the legislature and signed by Governor Davis on September 24th under the sponsorship of Assemblywoman Migden, San Francisco now can do the following. It can find an alternative energy service provider to PG&E and wheel the power to City businesses and residents over PG&E wires. It can purchase green power through contract stipulations that a portion of wholesale power purchase will come from renewable energy sources, and it can directly run its own energy efficiency programs with its residents and businesses, public benefits charge funds.

The principal of community choice is that by aggregating the purchasing power of the whole community of San Francisco, residents and businesses, public agencies and institutions, San Francisco can achieve independence and approve its energy services for consumers both in terms of price and the environment. Electricity is the nation's single largest cause of climate change, urban childhood asthma, and radiation. So the implications here are enormous. Community choice holds another important prospect for the City. In 2001, Supervisor Mark Leno and I sponsored Propositions B and H giving San Francisco revenue bond authority to finance solar power, wind power, and hydrogen renewable energy facilities as well as energy efficiency and conservation facilities. In order to utilize this bonding authority, Hetch Hetchy must be rated by bond rating agencies. In general, Hetch Hetchy will be a better credit risk if it serves a larger customer base. While Prop D would have accomplished this goal, PG&E spent enormous sums to defeat it at the polls. Community choice now provides the timeliest route to accomplishing the goal of expanding Hetch Hetchy's customer base. The coupling of community choice and

Prop H revenue bond authority will allow us to pursue aggressive renewable energy investment like the 50 megawatt solar power facility I proposed in 2001. I believe it is the consensus of the Board and the community of San Francisco to make San Francisco a world leader in green energy, to demonstrate a real alternative to the Bush energy policy.

In closing today's agenda item, we will direct the Executive Officer of LAFCo to develop an issue, an RFP for energy consultant services necessary to analyze the feasibility of community choice and work with the San Francisco Public Utilities Commission (SFPUC) and the Department of the Environment (DOE) to prepare for an application to the California Public Utilities Commission (CPUC), the state regulatory agency that must approve local plans under AB117.

While this does address one element of Proposition D, this is not the same as Proposition D or Proposition F. This is not going to accomplish what the proponents of those two measures wanted, but it is a step in that direction. It is taking advantage of something that is now state law, which San Francisco is very much behind, which is community aggregation. In terms of the whole public power question, this does not resolve that as supported by those of us who supported Propositions D and F. However, it is an important issue and I think San Francisco has the resources and the talent to take advantage of this in a way that could be positive for rate payers.

Edward Smeloff, San Francisco Public Utilities Commission, stated that the administration also supported Assembly Bill 117, and we are pleased to see its passage. We were active in shaping one provision of that that would allow the cities to have a larger role in administering the funds that are collected currently by PG&E, so-called public-goods charge funds that is used for energy efficiency renewable energy programs and other public purpose programs. I thought maybe I could review a little bit about what is included in AB117 and then talk in high level terms of some of the benefits and risks of community aggregation. The law allows cities, counties, or a city and county through its governing board elect to be an aggregator of the residential business municipal load within the city's boundaries for the purpose of serving those customers' electricity. It actually also allows for cities to form joint power agencies and actually do this on a multi-city or multi-county basis as well.

The major benefit of community aggregation compared to other forms of aggregation is that the community aggregation bill allows for the City to aggregate customers on a so-called opt-out basis. That is, the City under the law is required to inform every customer that they have a right not to be served by the City and either be served by the incumbent utility, in our case PG&E, or a third provider. They are given the option of not being served, and they have to then make an affirmative declaration that they are not going to be served by the City. If they simply ignore this, then they are deemed to have chosen to be part of the aggregated pool of customers. It is that feature of community aggregation that makes it attractive for cities because trying to sign up customers affirmatively one by one is quite costly. We saw in the

experiment with deregulation and so called direct access that very few residential customers elected to leave the utility and sign up with an alternative provider. An alternative provider except for a handful of green energy providers were simply not willing to make the investment in going out and trying to sign up customers. This provides a realistic alternative for customers through their elected officials to choose an alternative provider.

The law requires that the City develop a fairly detailed implementation plan. I think it is wise that you are doing this feasibility study before we submit that implementation plan. I won't go through the details of an implementation plan, unless you want me to, but I am prepared to discuss that. Prior to us being able to file an implementation plan with the California Public Utilities Commission, the Public Utilities Commission itself has to adopt certain rules and regulations to allow for community aggregation to occur. They need to do several things. Perhaps the most important thing that the CPUC has to do is determine what stranded costs or historical procurement costs will need to be allocated to the customers that will be served by the community aggregator. Those stranded costs include a whole list of costs that have been incurred on behalf of either PG&E or the state.

The Department of Water Resources has entered into a number of long-term power-purchase contracts. Those contracts, some of which have above-market costs will end up being allocated to the customers of a community choice aggregator. In addition to that, there are still uncollected costs that PG&E has incurred during the period of the energy crisis that could be allocated to the community-aggregated customers. Also, all the revenue bond costs associated with the recently issued bonds by the California Department of Treasury to pay for previously purchased power will have to be paid for in part by any community aggregator. The Public Utilities Commission needs to determine both the mechanism and the quantity of costs that would be applied to any community aggregator. They also need to develop a number of other rules.

Last week, my staff and I and the Department of the Environment met with the staff of the California Public Utilities Commission to find out what their timetable is for developing these rules and what process they were going to use. They informed us that they had not yet made a decision on the process. They have two choices. One would be to fold it in to existing proceedings and there are four existing proceedings that are going on that are relevant to community aggregation. One of them is how to administer energy-efficiency funds, public-goods funds. Second is how to implement newly mandated renewable portfolio standards. The third is how to allocate these so-called stranded costs. The fourth is very important. The utilities are being reassigned responsibility by the Public Utilities Commission for long term planning and for procurement. PG&E and other utilities will submit to the Public Utilities Commission this April long-term plans for procurement in which they will provide a list of contracts and other resources that they intend to enter into to meet the demands of their customers. It is very important that we pay attention to that because If you want to do community aggregation, there needs to be a smooth

transition from what the utilities are doing, any commitments they are making and commitments that we would have to make as the supplier of electric resources. We need to be having a dialogue with PG&E at this time to make sure that they don't incur costs and make commitments that would make it difficult or more costly for us to do community aggregation in the future.

We have submitted to you and you have adopted our Electricity Resource Plan. The Electricity Resource Plan calls for developing some new power plants in San Francisco, most notably a co-generation plant out at UCSF, Mission Bay, and a co-generation plant downtown associated with the downtown steam supply system. Those plants cannot be developed unless there is a long-term power purchase contract. It could be done through community aggregation; it could be done through PG&E. It could be done through a combination of PG&E agreeing in the short-term to enter into that kind of contract and transitioning to community aggregation.

Commissioner Hall stated I have to leave in about five minutes. For the sake of the public that may be viewing, I want to make it very clear that I do not want another study in public power, and I think that Supervisor Ammiano laid that out. The concept of community aggregation is something that the City has always been able to do. Now we're entering into that. Could you explain briefly how the Migden Bill might have helped us or facilitated our effort to do so, and why we didn't do this before? Just those two concepts.

Commissioner Ammiano stated I would like to clarify that my remarks were not meant to state that I do not still support public power.

Commissioner Hall stated I understand that. I want to find a way that works and do not want to go down the same path that we've been the last couple of years. That is why I'm asking the questions I am asking.

Mr. Smeloff stated that what the Migden bill does is it provides this opt-out feature prior to this law going into effect. If the City wanted to serve non-municipal customers, we would have to sign them up one by one, get an affirmative declaration that they would be our customer. That's a transaction that is very costly to do. What this does is it allows you sitting as the Board of Supervisors to enact an ordinance that says we will be the default provider for all businesses and residents in San Francisco unless those customers decide to choose someone else including PG&E. That's the big difference.

The administration is pleased and eager to work cooperatively with the LAFCo in developing the scope of work, and if you want us to help in the review of qualified contractors, we would be glad to do that as well. We understand that you have the funds. We understand this is something that is going to be paid for by LAFCo. We have not budgeted this at the Public Utilities Commission or the Department of Environment.

Commissioner Hall stated just to follow-up on something that Commissioner Ammiano said. I'm not against public power either. I'm against it in the way that it failed the last two times out. If this leads us to closer to lower rates for the customers and public power, so be it, I think that's wonderful. I just don't want to thread over the same ground we have been in the last couple of years.

Commissioner Schmeltzer stated I wanted to note that in the proposed work plan that was provided, this probably should have been stated a little more clearly, but the intent of Item E was to focus on AB117 implementation, which ties in to what Mr. Smeloff is talking about.

Commissioner Ammiano stated that I was also going to suggest that since Mr. Broomhead from the DOE isn't here yet, that we might discuss Item 5 while we are waiting, then have public comment on 4 and 5.

Commissioner Gonzalez stated I think there is certainly nothing that mandated this particular discussion about AB117 coming to the LAFCo. I think the last point Mr. Smeloff makes is really wise, which is the LAFCo appears to have money to be able to fund this continuing study that the City has a need to do. I think it is important that we keep in mind that the previous study we did was—I think we often get caught up in this idea that was very specific about a political campaign measure that was before the voters. I think the very first year that the LAFCo was around when I was an alternate member, it was very clear that there was a lot of discussion at the LAFCo talking about that campaign measure, etc. etc. I think that was a mistake. I think that the City has a benefit in pursuing its various options and that the earlier study by R. W. Beck really wasn't an expanded energy study, which we have discussed and which is laid out in part in that study. I think the balance here is to figure out how we are going to spend our resources to be able to do both these things and at the same time move the LAFCo into areas that I think we are all interested in getting into. We don't want to be on the topic of energy forever. I don't know how we do that given the budget that we have.

Commissioner Hall stated I agree with you totally. I would have preferred to have been at this spot a year ago when I came on this board. Let's move ahead.

Mr. Smeloff stated I don't know how much more detail you want from me at this time.

Commissioner Fellman stated I want to comment on behalf of the LAFCo Energy Committee, and I prefer to call it the Work Plan Committee. We came up with an approach that we would divide our available funds between energy and new issues, and we have some proposals for those new issues as well. What I would suggest in going forward is that we hear from Mr. Smeloff to complete your presentation. What I would like to hear is what the SFPUC approach would be. I think our understanding in developing the scope of work is that AB117 would be the focus of the energy piece of that. We would certainly want to work with the SFPUC as well as with other City departments in coming up with a scope of work--to work quickly

and expeditiously to come up with our analysis so we know exactly what should be presented to the Board of Supervisors for consideration of community aggregation.

Chairperson Commissioner Gonzalez stated I appreciate that two members considered how the LAFCo should spend its money. To a certain extent, the advice or the recommendation is certainly something to consider. But I think that AB117 is a new enough phenomena that while it fits in to what we are working on, it also does slow down other priorities that we had set for ourselves. I think that is a discussion that we have to have. I am supportive of moving forward on the item, but I am not sure that saying that we are going to devote only half of our budget to energy necessarily works given AB117 is going to take up how much of that budget, Ms. Young?

Ms. Young stated as you will recall, the future work plans that was approved by the Commission included further work by R. W. Beck. I had asked R. W. Beck to submit a proposal. That is what the Commission directed me to work on with the two members of SFLAFCo. We had anticipated that the work including the work on AB117 would be less than \$100,000, and we had worked with R. W. Beck to agree to that. That was a part of the recommendations that came out of the Energy Study. It was in association with the work plan that this Commission approved, and it also included some of the other issues.

Chairperson Commissioner Gonzalez stated what did you expect would be under \$100,000? Could you break down the parts?

Ms. Young stated it is currently in your packet, the last item associated with Item 5, which is the discussion of the work plan. We also included what R. W. Beck had anticipated in terms of following up on the issues that came out of the Resolution that this Commission approved and sent forward to the Board of Supervisors.

Chairperson Commissioner Gonzalez asked are you referring to the October 30, 2002 letter to you, Items 1-7?

Ms. Young stated, exactly. Legal counsel and I met with R. W. Beck and as a result, the October 30, 2002 memo came out of the discussions with proposed costs. We then had further discussions that broke these costs down further.

Chairperson Commissioner Gonzalez asked which parts of Items 1-7 are you saying correspond with what you are talking about under \$100,000?

Ms. Young stated if I recall correctly, it was Items 2 and 3, which came to about \$125,000 and we broke that down further to reflect more of AB117. Commissioners Schmeltzer and Fellman may speak on this issue as well.

Chairperson Commissioner Gonzalez stated I just want to make sure I understand. When we split the budget in half and we said we were going to devote half of it to

energy, you are saying that the half that we are devoting to energy will be consumed by the work on AB117?

Ms. Young stated the cost is further outlined in the memo in your packet.

Chairperson Commissioner Gonzalez asked Ms. Young did you participate in the Subcommittee discussions?

Ms. Young stated, absolutely.

Chairperson Commissioner Gonzalez stated then you are comfortable saying that once we divide up half the budget like that and it gets consumed by AB117, it is your opinion that there is no more energy work for the LAFCo to do?

Ms. Young stated no, this was in the priority order.

Commissioner Schmeltzer stated I don't think she said that. I think what she said and my understanding is that we looked at the items proposed by R. W. Beck. In light of what happened in the election, it was not appropriate to continue looking at some of the items in that report because they were specifically focused on things that were related to public power as it was looked at in the election. We then went back and spoke to R. W. Beck about the remaining items and we discussed this at the last meeting, which were focused on AB117 and asked what that would cost to move forward on a study. It was determined that that would be less than \$100,000.

Ms. Young stated that R. W. Beck was present at the last meeting and spoke to those issues at that meeting.

Commissioner Fellman stated I think where we're struggling here is that we as the LAFCo need to establish what the study is going to address, and then R. W. Beck was going to come back with a final budget.

Chairperson Commissioner Gonzalez stated I just wanted to understand what the Subcommittee was considering. What parts of what happened at the election are you saying preempt continued work?

Commissioner Schmeltzer stated the discussion, I believe at the last LAFCo meeting, was on what parts of the items in the R. W. Beck study would be appropriate to go forward with. That discussion touched on in light of the election there is nothing that legally preempts us from looking at anything in that R. W. Beck study. The discussion was what would be appropriate to continue looking at. Everybody who said something discussed that it would be appropriate to continue looking in depth at AB117 and moving forward with that since that has just been signed by the Governor. That is what we focussed on.

Nancy Miller, Esquire stated that specifically it was the acquisition of PG&E which they had estimated at \$150,000 and the financing plan for that acquisition that they had estimated at another \$20,000. We did this as a phasing project. Those two items would be something we would not be looking at this fiscal year, and we are talking about this fiscal year's budget. I am talking about what we discussed at our last meeting. We moved those monies or that work plan off the table.

Ms. Young stated the other piece of that was the risk management piece, which it was our understanding that the SFPUC had hired R. W. Beck to do a portion of the risk management. It was a concern as to whether or not we would wait to see what the outcome was, to see whether or not we needed to expend any funds. The other area that was moved off the table was the model of governance.

Ms. Miller stated they are still going to look at that, but they had estimated \$25,000 and we negotiated with them to provide that a lower cost. So they would still look at a conceptual model of governance which included the idea of a potential public power alternative, but at a diminished analysis. The long time resource plan became much more important because of the passage of the Migden bill as well as the community aggregation issue at least at this time.

Chairperson Commissioner Gonzalez stated the way I am looking at it is the measure that went to the ballot was not directly about acquiring PG&E. That was not what the measure was about. It had certain contingencies that could have allowed for that under very limited circumstances. I think the LAFCo ultimately makes a mistake if we settle for that initial R. W. Beck study without exploring other possibilities that were flushed out, some of what we are talking about here and then moving on to other areas. I think the idea of saying well, let's put these to the side because AB117 is at the forefront and talking about something in the future I think is the nexus between that work and the original R. W. Beck study gets attenuated. I think it's better to get the work done up-front and move on into other areas. That's my own assessment.

Commissioner Fellman stated I think we are talking about the same thing. When you say get the work done, what work do you specifically mean?

Chairperson Commissioner Gonzalez stated I think the recommendations made by R. W. Beck in the original study that they produced and what's being enumerated here in the letter to Ms. Young, the problem I have isn't that we would prioritize AB117. I think that makes perfect sense. But I have a problem with the idea that with the money that we have, we are going to limit ourselves to what is going to be devoted into this area before we are ready to move onto other areas. I think that would be a mistake.

Commissioner Ammiano asked, is that the intent?

Commissioner Fellman stated where we started was with the LAFCo Energy Services Study. The intention of going forward was to look at what Mr. Smeloff was doing in the San Francisco PUC, what other issues were being raised with the City Attorney before the State Public Utilities Commission, what legislation had been passed. Also, what the City had before it now that would allow it to take a new direction with respect to the energy issue. I think we are in agreement with that. The fact that the election occurred and there was a coalescence around the issue of public power and pronouncements about that, that informed the future work, but it wasn't the driver of the future work.

Chairperson Commissioner Gonzalez stated I agree, but I am not sure that the remarks I am hearing today are taking into account the available budget that we have.

Commissioner Schmeltzer stated I think they were. However, I think I am hearing something different from you than what was expressed before which was that we should take only half of the money that was available and use it for energy. Given that, what could we do with that budget?

Chairperson Commissioner Gonzalez stated that is what I understood the Subcommittee decided.

Commissioner Schmeltzer stated we didn't decide that. That was decided at the Commission meeting.

Chairperson Commissioner Gonzalez asked at the last Commission meeting?

Commissioner Schmeltzer stated yes. That is not something the Subcommittee decided. The Subcommittee was told given that you are going to use half the money on energy and we'll save half the money for other things, what can we do with that, and that's what we came back with. If what we are saying is that we really want to focus on energy and finish that—what we were discussing was whether we split the efforts of the LAFCo into energy and other things, and that decision had been supported.

Chairperson Commissioner Gonzalez asked, but did the Subcommittee make a recommendation to the full LAFCo about that budgeting decision?

Commissioner Fellman stated that is where we are today. What we've worked with was the concepts expressed in discussion by the LAFCo members that there were other issues of concern and possibly importance to LAFCo, and we should look at those other issues in addition to the energy issues. I think one question that I have for Commissioner Ammiano is whether Item 4 is something outside of what Item 5 contemplated? Or is Item 4 something that would fold into our previous LAFCo discussions?

Chairperson Commissioner Gonzalez asked for clarification from Ms. Young—the decision that was made at the last LAFCo meeting, I was not in attendance. Can you show me where in the minutes it discusses this issue?

Ms. Young stated I don't have the minutes in front of me, but the report itself speaks to that item in terms of background. If you look at Item 5, the background indicates that on November 8, 2002, the SFLAFCo has adopted the Resolution.

Chairperson Commissioner Gonzalez asked Ms. Young what are you referring to?

Ms. Young stated, item 5 in your packet—the second item after the memo indicating that the work plan is attached. It came as a separate packet to you. It indicates what the Commission's actions that you took. There were a couple of actions. You approved the Resolution.

Chairperson Commissioner Gonzalez stated I am with you on that. On Item #3, the cost of the study where it says "the Subcommittee anticipates allocating approximately \$100,000 to energy issues." That's when I asked my colleagues. I am assuming that is the Subcommittee that made that recommendation.

Ms. Young stated no, that is part of the recommendations in terms of discussion items for you today to take action on. Item #1 is strictly the recommendation that came out of the Commission in terms of directing the Executive Officer and the Subcommittee to go off, prioritize, and look at those issues that the Commission had raised. A number of you had indicated a desire to move forward, and that was your top priority around the energy issues that came out of R. W. Beck. Commissioner Hall was very much concerned about other issues such as the title, etc. that some of you came up with respect to other study areas. Our job was simply to look at that, prioritize them, and bring them back to you in terms of a potential cost.

Chairperson Commissioner Gonzalez stated I do not have any disagreement what the Committee indicated in terms of the future work and prioritizing that. I think we're in agreement. What I am trying to understand is when a decision was made about a budgeting decision related to the available monies that we have and what we would spend that on.

Ms. Young stated there was no decision by this Commission nor any decision by the Subcommittee on the determination. There is in there a recommendation of \$100,000 and \$100,000 totaling \$200,000. That came out of our conference call based on the fact that was a recommendation for us to go off and come back to you with some information for you to look at today.

Chairperson Commissioner Gonzalez stated and the reason there is no discussion about that in the minutes of the last LAFCo meeting is because it didn't get taken up?

Ms. Young stated exactly. That conference call came after your November 8 meeting, and it is back on this agenda.

Commissioner Ammiano stated I am glad these things are being clarified in terms of the sequencing and when the decision making is going to be made. I think Commissioner Gonzalez does have a good point though. That is that part of our discussion needs to be that while we are looking at AB117 which is important, that shouldn't preclude the concurrent further study of the Beck recommendations, particularly the one on the PG&E analysis. I think that is what he is trying to underline, and I would support that. I am not saying you are not supporting that. It appeared the perceptions were that decisions were made about the money.

Commissioner Schmeltzer stated our understanding was that is what we were asked to go look at.

Mr. Smeloff stated let me make a point that might be relevant to that discussion. That is yesterday we met with the energy offices from the cities of San Jose, Oakland, and Berkeley. They too are interested in AB117 and the opportunity to do community aggregation. I informed them that I would be here today to talk about your selection of a consultant to study this issue. They indicated an interest if it were appropriate, in piggybacking onto that study and maybe bringing additional resources of their own to that study. We need to get back to them to let them know 1) if there is any interest—I think there are generic issues related to community aggregation. If we did this together with the other large bay area cities, there would be a value. There are certain specifics to each city given its geographical configuration and constraints of serving those cities that would need to have a specific focus. Let me see if there is an interest in this and at least my further exploring with those other cities the possible cooperation in doing this study. I need to report to them how much resources San Francisco is going to bring to the table to do a community aggregation study, and we can see if they can bring some additional resources.

Commissioner Ammiano stated and my hope would be that it would be the will of the Commission again while looking at AB117, that that would not preclude another study in terms of the recommendations made, particularly the PG&E analysis.

Mr. Smeloff stated doing a study on community aggregation, I think is important to move quickly because of this issue of long-term procurement. PG&E will be submitting a plan on behalf of all their customers in Northern California to procure additional resources. If they don't do it in a way that leaves some opportunities for community aggregation or do it in a coordinated way, there can be some additional significant costs imposed on the city if it were to choose further in the future to do community aggregation. I wanted to show you what the major benefit is of community aggregation. The benefit of community aggregation is that San Francisco can purchase electricity to meet its particular needs—purchase to its specific load profile. Low profile simply means that we have over the course of a

day and the course of a year a specific pattern on how we use electricity. We see here that we start using electricity with a higher degree of quantity, at six in the morning and it grows, peaks at 8:00 in the morning and then its pretty constant throughout the day on a typical spring day.

Our load is very different than the load in Sacramento or the load in the Central Valley, which is enormously more peaky. Where you will see in Sacramento, where I have worked for a number of years, peak demand on a hot summer day could be 400 or 500 megawatts greater than it was on an average day, and you need to procure resources to meet your peak needs. Those peak resources can be extraordinarily expensive. Right now PG&E averages all of its costs for procuring resources over their entire service area. What ends up happening is that San Francisco and the other Bay Area cities end up paying for resources that are primarily used in the Central Valley and other areas that have more air conditioning load. To be able to do community aggregation and match your load profile with your costs, procure resources that match this load is where you are going to save significant amounts of funds. Now doing this also, and this is why you need to have a very good consultant. There are risks involved as well in procuring resources to meet your needs because you can be short of your peak need and have to go out in the short term market and procure. That is where PG&E got damaged in the energy crisis. Alternatively, you can be long. You can procure more resources than you actually need and then sell those into the wholesale market. You really need to think about what our risk management strategy is under a community aggregation portfolio.

The other benefit of community aggregation is this profile is not dictated entirely by the weather. There are choices we make as customers, and we can manage our load through active, through technologies, and choices that we make, through pricing signals, and Cal Broomhead is going to talk a little bit more about energy efficiency. The real benefit of this is that we are responsible as the City for managing our load. During those periods when it is more peaky, hot days or cold evenings, we can do certain things to manage that load and lower our overall costs. That is the benefit of doing community aggregation. It is a long-term benefit because you can change load shapes a little bit in the short-term, more in the long-term as you change the kind of equipment that is in buildings. It really does give a large measure of self-control to cities that do that. That's why we are eager to work with you on framing the RFP and the scope of work for your consultant and to move as quickly as we can because of the decisions that the California PUC is going to make.

Cal Broomhead, Department of the Environment, stated currently energy efficiency programs are funded through the public goods charge fund, which is approximately three percent, and PG&E collects it and hands it to the state and the state hands it out. Typically, they have been handing it back to the investor-owned utilities, PG&E etc. Last year, they actually opened that up to a little bit of competition from third parties. The City applied for three and a half million dollars to extend our power

savers small business lighting retrofit program and expand the scope to include refrigeration, etc. and we were denied. We didn't get funded. This coming year we were expecting to go look for more funding to continue the power savers program, and it appears as if from an interim ruling that that money may be taken off the table and no third party will be able to apply for it. What this really points out is that a continuing problem in the energy efficiency funding field is that funding tends to be very cyclic. It is there one year and gone the next. It makes it very difficult for local businesses to hire and train employees, purchase equipment for doing energy efficiency work, and our power savers program is an example of that. Most of the work is being performed by an outside firm that specializes in this kind of work, and only 40 percent of the work is actually being done by local San Francisco contractors.

The other part is that these energy efficiency funds programs, they tend to be state-wide programs so they have to apply to residents and businesses across the state. As Ed was pointing out about the differences between San Francisco's load curve and the load curve of the rest of the state, that we have some very unique peak periods. One of our peak periods is actually a cold winter evening when we have a lot of electric resistance heating in our residential units that comes on, and this is very unusual in the state. However, there are no statewide programs that address this. So, if the City had control of those efficiency funds through the community aggregation process, we would be able to target the funding better to meet San Francisco's needs that are very unique. We would also be able to provide multi-year programs where we could develop a local infrastructure among local small businesses and community organizations to perform the work and provide a good strong base for this work in this industry. There are a lot of other reasons for supporting it, but those are the two primary ones.

Vice-Chairperson Commissioner McGoldrick asked, could you put this into dollars and cents?

Mr. Broomhead stated it has been some time since I looked at the actual electricity revenues for the City, but I think we are talking in the realm of about \$10 to \$12 million dollars a year. As a matter of scale, we got \$7.8 million for the small business program.

Commissioner Schmeltzer asked, is that the amount of money, \$10 to \$12 million that would be received through the public goods charge or could be saved through...

Mr. Broomhead stated that would be received through the public goods charge. The savings would vary depending upon the kind of programs we develop.

Public Comment

Bruce Brugmann, Bay Guardian, stated Supervisor Ammiano says the Migden bill will allow the City to aggregate, and Mr. Smeloff and the Mayor's Office have given

us details. Let me remind this group that the Raker Act has created the dam. What we are talking about here is that the legal authority mandates that San Francisco is supposed to have a real public power authority, and that is what the Supreme Court says. It is a public power authority that is supposed to bring our own Hetch Hetchy water to our own residents and our own businesses. That is why you are here today because we got nowhere with the city officials and the City department. Hetch Hetchy and the PUC--we had to go out and get the signatures and create a MUD which created a LAFCo which is here to help move this process along and not thwart it and subvert it at this point, which is what the issue is before you today.

I don't know why anybody doesn't come out and say we need a real legitimate feasibility study. I've been down here since 1969 asking for a real legitimate feasibility study. Never have we gotten it. We didn't have it for the MUD campaign. We didn't have it for the last year's campaign. So PG&E has been allowed to come in here and say, gee, public power and enforcing the Raker Act is too risky and too costly, and they hire a firm and pay for it to come up with their study, and we don't have one except for the Bay Guardian study which has held up. The LIPA Study in Long Island, studies for 2200 public power cities in the United States of America, which are not required by federal law to have public power--they seem to be able to get not only a study, but real public power.

Here we are in the midst of an energy crisis, another one. PG&E is doing injustice to us all over again on service. Front page of the Chronicle, of all things, front page of the Chronicle which has backed PG&E for the last eight decades has more to say about this issue than you folks do. It's very clear. You have to have two studies moving along on parallel tracks. One on aggregation and one on finishing up the R. W. Beck study and doing a real energy options study for the City and County of San Francisco. Mr. Smeloff just gave us another reason why--directly out of the Mayor's Office. We need to work with PG&E and keep a dialogue going. That's been the City's position now for eighty years. A dialogue with PG&E in which we lie on our back underneath a naked light bulb negotiating with PG&E. I am tired of this, and I would think that you folks would be a little bit tired of this too. What you need with PG&E is leverage, and that's exactly what this study would do. You would get cheap, easy leverage with PG&E because this study would bring out for the first time a real study by real consultants by R. W. Beck which is the best in the country. They would come in here and they would tell you what your real options are. Not a PG&E-funded study like they did at the last moment to help defeat us on the election campaign with \$3 million dollars. All the election did was show how deficient you folks were in never coming up with a study. I don't mean just you folks, but the City.

Literally, I have been down here since 1969. I came before Alioto's Public Power Committee. I have come down here again and again. I beg you folks to do a study. You didn't do it. Now you are mumbling fumbling around again. There has to be two studies, otherwise you have no leverage with PG&E. Otherwise you don't know how aggregation fits into the larger issue of enforcing the Raker Act, how it fits into a real public power authority, how it offsets PG&E, how you can move with the other

public power cities. Just make a couple of phone calls and check and see how good the public power cities were in dealing with the outages during the current storm. KQED had a big thing this morning on how bad PG&E was. The Chronicle had one. All you folks have to do is make a call to Sacramento, to Lodi, to Palo Alto, to Santa Clara, to Healdsburg, to any of these cities that have public power, real public power with their own people doing this. Two studies are what you have to do at this point. A report from the Bay Guardian entitled "Public Power will Save You Money" was received in the Commission hearing and passed out to all Commissioners.

Chairperson Commissioner Gonzalez stated the LAFCo took public testimony from individuals coming from some of the areas that do have public power and we took testimony on the advantages of public power. I am aware of the study that you are essentially handing us today. I think much of the discussion that has been going on today is about whether or not that original R. W. Beck study naturally leads to a feasibility study and expanded energy study, and I think the answer to that is yes. However, it is ultimately going to be a question of budgeting, and I don't think anybody or even any supporter of public power can quarrel with the priority of AB117 given our current situation.

Mr. Brugmann stated I can, because it is a small down-payment, only really major money making machine for the City and County of San Francisco. If you listened to us in 1969, you would be having \$200 or \$300 million dollars a year on our own public power system. The recession would not be so bad; we would be able to get out of the recession. I have heard this budget argument for years.

Chairperson Commissioner Gonzalez stated I don't disagree with you. I think the City would be way better off with public power. I don't think there is any question about it. But in order for that to happen, there are a number of things that have to come into place including an election including the study that you are talking about. There has to be a political will, public will etc. That being said, right now in our climate, in our historical moment, I cannot disagree with what the Committee did in terms of prioritizing AB117 and I don't see how you could.

Mr. Brugmann stated I would like to know what the Committee did. I have not seen any report on it. I could not find anything in the Minutes. Nothing was said here at the meeting. It's very annoying. It's almost like a secret meeting where these things have been decided.

Chairperson Commissioner Gonzalez stated these are not secret meetings.

Mr. Brugmann asked, where is the report of the Subcommittee? I sure would like to see it and I would like to see it presented to people when they come to testify. I think that people know that the Bay Guardian is working on this issue.

Chairperson Commissioner Gonzalez stated when we launch off to try to tackle what is a very large problem, not everybody agrees on how to tackle the problem. So that

original R. W. Beck study was really about laying the land and really explaining many of the different alternatives that were out there. One of them is a path that you and I would like the City to take. Not everybody shares our opinion. Be that as it may, I think that original study naturally lends itself to the further inquiry that you want. I think Commissioner Ammiano and the other Commissioners are committed to that. But given what happened recently, AB117, and an opportunity that the City has to try to improve its situation, I don't see how we can ignore that.

Mr. Brugmann stated I am not saying to ignore that. Go ahead and do it—it's just a baby step. But it can only be done in the context of an additional study.

Commissioner Ammiano stated and we agree.

Mr. Brugmann stated then you have to discuss them together, push them together, and fund them together.

Commissioner Ammiano stated we agree. We have established a common ground of AB117, a deserving study along with a congruent study that you are addressing. I don't understand what the problem is. I have been around since 1969 as well.

Mr. Brugmann stated I will tell you what the problem is. The problem is that you cannot move ahead with this one study. You have to do them both and you have to put them in context. So you put them out and you fund them and you discuss them openly. You mention that this is an option study to take over PG&E if the study gives some evidence for that.

Chairperson Commissioner Gonzalez stated Mr. Brugmann, and that is why so many of my earlier remarks related to the LAFCO's budget, whether or not we had made the decision it was going to make it impossible for us to move forward from the recommendations in the original Beck study.

Mr. Brugmann asked, what am I missing here? I see based on what I saw sitting out here—I am an experienced reporter reporting on this issue for a long time. I see a meeting that looks to me as if you are going to approve one and not the other. Isn't that right?

Chairperson Commissioner Gonzalez stated you are right that we are going to approve AB117 today.

Mr. Brugmann asked what about the other one?

Chairperson Commissioner Gonzalez stated the other one will be coming back. You will see it in January and we will see how the Commissioners vote on it.

Mr. Brugmann asked why can't they be done in context? We've watched this being stalled now for years and years.

Chairperson Commissioner Gonzalez stated I think Ms. Young could speak to that. R. W. Beck I think is the group that may be doing both.

Ms. Young stated as a part of the proposal and R. W. Beck selection, it is a phase project. As part of the next steps for the recommendations that this Commission approved as a part of the Resolution adopting a future work plan is the feasibility study. I would just indicate in accordance with the Sunshine Ordinance, the items being discussed have been agendaized and are part of the packet. In addition, the agenda and packet have been posted on the web in a timely manner. The items are also available in the Clerk's Office in a packet. The meeting that has been referred to with respect to the two members of the Commission was less than a quorum of the Commission, and that is why it was able to occur.

Commissioner Ammiano stated that in the discussion of Item 5, I would like to introduce under New Business for the meeting in January the proposed confluent study that Mr. Brugmann is addressing.

Commissioner McGoldrick stated in January I will second that motion. I intend to also move forward in that direction, and that is all I had wanted to say on this today. It is not before us today, but it is going to be before us. I think that I would get a general sense that when it comes before us there will be a confluence of support for moving forward and really understanding what the picture will be. I don't think we're really in a position to discuss it at this juncture today, but I think that lends an understanding to the public regarding the direction this membership in the LAFCo probably in its majority will support.

Ms. Young stated I know that the Commission is in the middle of public comment. It probably would do our listening audience and the Commissioners well if at some point we have the Subcommittee report in terms of the recommendations that are before you. We have hinted at it and not had that dialogue yet as a part of this discussion. We've been talking about Commissioner Ammiano's item and it has come up.

Chairperson Commissioner Gonzalez asked Ms. Young, if we approve Item 4, presumably you would negotiate a price?

Ms. Young stated yes, we would recommend a couple of modifications to Item 4 since it relates to Item 5 and yes, you are correct we would negotiate pricing.

Chairperson Commissioner Gonzalez asked what benefit would there be to negotiating a price for the kind of study that we are talking about here in addition to Item 4? Why shouldn't they be discussed together?

Ms. Young stated that was our purpose to begin with when we walked into this meeting because Item 4 is included in Item 5, and so the issue was whether we

needed to go forward and do a separate RFP, a separate scope of study. From my perspective as the Executive Officer, I would recommend that we amend the existing contract with R. W. Beck and include the scope that we would be allowed to develop. I would defer to legal counsel.

Chairperson Commissioner Gonzalez stated that the only problem I have with what you are saying going back to the letter that R. W. Beck sent to you relating to the various costs. It just doesn't seem to say that it's fair to say that Items 4 and 5 are the same thing. Clearly, Item 4 is encapsulated in Item 5, but obviously there are parts of Item 5 that are not included in Item 4. Item 4 is a subset.

Commissioner Fellman stated that is where we need clarification from Commissioner Ammiano on his intentions of how the two would relate.

Commissioner Ammiano stated I am going to put it on the New Business calendar to make sure that we have that discussion in January.

Commissioner Fellman asked, but this is with respect to AB117 elements?

Commissioner Ammiano stated we will come up with some language. I want the item discussed in January that has been referred to, and we will find a way with the help of legal counsel to do that.

Nancy Miller, Esquire, stated we can do that because the R. W. Beck letter and even the attachments to your agenda item refer to all of the elements of our phasing project, not just the AB117, the new aggregation statute. The only clarification that I would like to make on Item 4 is that we already have selected a consultant through a very extensive RFP process. If you want us to go back through another RFP process we can do that, but we do not legally need to do that. We have a selected consultant and we can use that consultant to identify the scope of work.

Chairperson Commissioner Gonzalez asked, you mean R. W. Beck?

Ms. Miller stated yes, I mean R. W. Beck. When you are discussing Item 4, I would request that you amend that to say that we could use our selected consultant because we already have been through the RFP process. We don't need to go through it again.

Commissioner Ammiano stated it would make it quicker.

Ms. Miller stated, yes it would make it quicker.

Ms. Young stated I requested that R. W. Beck provide the analysis with respect to costs in October. It was early on prior to a number of discussions that took place because I anticipated that the Board as a part of its future work plan would be wanting to look at those recommendations that were spelled out. So this was prior

to additional conversations including and up to the elections process. So we have continued to have discussions with Mike Bell about given the fact that there may be some priorities and future phasing, what that cost would be and what the pricing would be. Again, I would defer also to Commissioners Schmeltzer and Fellman.

Mr. Brugmann stated I am really not trying to lecture. I am just bringing out a point. I thought both of these items were going to be settled at the same time today. So it's extremely important that unless you do the full study, this other study takes you almost into a cul de sac. All you will have is a little bit of air and PG&E and Mirant will be largely in control of our future and destiny here in San Francisco. It is a very critical point.

Steven Moss, San Francisco Community Cooperative, stated I want to support you moving forward with this scoping study and have a couple of comments about it. My coop represents folks in the Bayview Hunter's Point Potrero area so we are very concerned about the timing of things moving forward quickly. As you know the City has adopted an Electricity Resources Plan and to the extent possible, community aggregation should support the elements of that plan rather than be on a separate track. In other words, the City is on a pathway and community aggregation should be part of that pathway. So, I would encourage the study that you are going to fund, not ask the question should there be community aggregation, but how best can you implement community aggregation given the long process of discussion that the City has already occurred.

The City is about to launch on large solar efforts, but the City has not yet found out yet how to actually implement the key aspects of solar. For example, Hetch Hetchy does not allow for net metering currently, which is essential if you are going to have solar systems in the City, which will provide excess power to the overall grid. If you are a Hetch Hetchy customer, you do not have access to the current state subsidies. These problems can be solved as a part of community aggregation, and they can be solved at lower costs because of the things that Ed told you. We need to tailor our energy plan to our energy needs here.

The other thing I want to mention about R. W. Beck—I understand that consultant has already been selected. A great deal of research has been done on community aggregation—I want to introduce my colleague from the Center from Neighborhood Technology. She is doing some work on neighborhood aggregation nationwide. I would encourage you to encourage R. W. Beck to rely on those existing studies. We know a lot about this. What we don't know is how fast and how well this City can implement it when.

Richard Ow stated I am a proponent or community activist in both the MUD issue and recently the public power Issue, ballot measure D. We know that there are studies, but we need a one-page study giving the benefit of obtaining public power. We have experts—the study is this thick, and the average citizen does not have access to this study or understand all of it. PG&E put out a good public relations

campaign and talks to the community. That is why the public power initiative failed. So whatever study you may have and since you are spending a lot of money on it, insist that whoever is doing the study give us one page and list all of the benefits and all of the answers to all of the questions people may have. I am sure then that the citizens will come to the benefit of public power.

No further public comment. Public comment closed.

Chairperson Commissioner Gonzalez asked Ms. Young to come forward and stated on Item 4 what I have in my packet is a memo from Ms. Young to the LAFCo related to Commissioner Ammiano's request. Then it has on page 2 the recommendations. Shall we go through each one and make sure that everyone is on the same page?

Ms. Young stated we do have a potential request for an amendment to the recommendations on Item 4. This was based on the fact that Commissioner Ammiano requested that we put forth some recommendations in order to make this happen. One was to direct the Executive Officer to work with the San Francisco Public Utilities Commission, the Department of Environment, and the City Attorney to prepare a scope of work. That was the first recommendation.

Chairperson Commissioner Gonzalez asked and the scope of work is specifically related to AB117?

Ms. Young stated absolutely. The second, and there is a question whether or not we could go ahead and work on the scope and simply amend the existing contract that we have with R. W. Beck. Item 2 is to direct the Executive Officer to use an informal process for securing consultants rather than a formal request for proposal. Again, I would just reiterate that this recommendation was Commissioner Ammiano's, and I forwarded it to the Commission. The question would be whether or not we actually need to do an RFP (as Item 2) because if we amend the existing contract, then there's no need to send a separate RFP unless this Commission chooses to do so. Item 3 relates to Item 2, which is a two-week period in order to provide and get a list of consultants and also to make public the scope of services. Item #4 is to determine whether or not the Commission as a whole or as a Subcommittee would like to review the proposals with me as the Executive Officer.

Chairperson Commissioner Gonzalez asked, your comments on Items 2 and 3 seem to be that if we amend the arrangement we already have, then we don't have to go through the RFP process?

Ms. Young stated unless this Commission wishes to do so, you are absolutely correct because we have the existing relationship with R. W. Beck for the consultant services, and there was the opportunity to move into the additional phases which included AB117.

Chairperson Commissioner Gonzalez stated then on Number 4, I would amend it to strike subcommittee so the Commission as a whole would review the proposals with the Executive Officer.

Ms. Young stated you may also want to hear from legal counsel. Have I reflected all of the changes or do you have additional ones?

Ms. Miller stated no, you reflected all of the changes I have.

Vice-Chairperson Commissioner McGoldrick asked, why do you want to strike Subcommittee?

Chairperson Commissioner Gonzalez stated if you prefer Subcommittee, then let's strike Commission as a whole. We should pick one or the other. I would prefer that we all be involved.

Vice-Chairperson Commissioner McGoldrick stated I agree. We could not strike it and still make sure it's the Commission as a preference to have a contingency factor built in there.

Ms. Young stated if we are amending the contract to have R. W. Beck continue, then the question becomes you won't have proposals before you, you will have their response to the scope of work.

Chairperson Commissioner Gonzalez stated let's go over Item #5 just to make sure everybody is in agreement with this. The subject of the outline of the immediate work plan and the process for public review and comment, and attached to that is the Resolution?

Ms. Young stated it is the approved Resolution by the Board of Supervisors. At your previous meeting, you requested that that happen and that did in fact occur. They approved it unanimously.

Chairperson Commissioner Gonzalez asked so as to Item #5, the work plan here if I understand it correctly is a summary of the Commission and Committee's recommendations?

Ms. Young stated that is correct with a proposal for what the Subcommittee anticipated. Item #1 was to give you background. Item #2 was the scope of work for R. W. Beck, and it did include AB117. Item #3 was a potential possibility for allocating the funds you currently have in your budget which is approximately \$200,000. It was to review and respond to the additional study areas that this Commission had in fact indicated including but not limited to a study of tidal current generation and then to provide for public review as we did for the Energy Study. I would defer to the Commissioners that participated in this process. It was prepared by our legal counsel after that conference call.

Chairperson Commissioner Gonzalez stated just so I am understanding this. In the memo to the Commissioners and Legal Counsel listed as Item 5 on the agenda, under Subsection 2, the "Scope of Work for R. W. Beck," so it basically modifies the Beck memo dated October 30th to focus work in light of the passage of AB117? Do you have the October 30th letter that R. W. Beck wrote to you?

Ms. Young stated that was done prior to your adoption of the work plan and I initiated that from R. W. Beck in order for you to have information that you could use as you looked at the work plan. You adopted the work plan. He spoke to the outline. Mike Bell also indicated that some of the issues would be related to what would occur with respect to the Elections process. So what you have before you now is a reflection of what the legal counsel prepared based on our conference call as well as conversations with Mike Bell.

Chairperson Commissioner Gonzalez asked aren't some of the comments here the scope of work for R. W. Beck? Weren't they already covered in the original study that they gave us last year?

Ms. Young stated yes, absolutely.

Chairperson Commissioner Gonzalez stated so tell me why we would need to amend anything from the October 30th memo with things that they have already done for us.

Ms. Miller stated we were trying to clarify in particular the public review process which was not outlined in the Beck memo and get more specific about that. Also, since the passage of the Migden bill, we wanted to focus a little bit more on the necessity of the study emphasizing that at this time. And money. We actually negotiated the price down. We also didn't want them to spend as much time on the history and brief overview that they had anticipated in their original letter.

Commissioner Schmeltzer stated I think what we were looking at here was what a new standalone study would include and some of these items were in the last report. It would just be pulled from that so you have an introduction, and you don't just start from Page 10. It would not be substantive time spent on that because it has already been done.

Ms. Young stated your Resolution reflects it. The Resolution attached goes through each and every one of those items.

Chairperson Commissioner Gonzalez asked as it relates to the October 30th plan, are we amending it or supplanting it?

Commissioner Fellman stated with respect to October 30th, that wasn't really a plan or a formal proposal. We wanted to get a ballpark estimate of what future work

would cost. So when we were shaping what LAFCo would do next, we would know what we were looking at in terms of how much money we had available to spend and what kinds of things we wanted to do. We knew we had an infinite amount of dollars so we needed to recommend a priority for the Commission to choose on how the dollars would be spent. So October 30th was never intended to represent R. W. Beck's budget proposals.

Ms. Young stated it was to provide you with information to help you identify and coordinate with your work plan. As you look at the work plan specifically identified in the Resolution approved by the Board, Items 1-7--those are the very items reflected in the October 30th memo only associated with the costs. Then the question became, how do you prioritize, what do you do first because the discussions that occurred at this Commission was we also want to do some other things. So the question was to bring you back as much information as possible for you to make the decisions you needed to make.

Chairperson Commissioner Gonzalez stated that whatever the language is would modify the scope of work, it just suggests that there is a scope of work that we are changing and modifying. In many respects you are asking the LAFCo to agree that this is a scope of work. This is it right here. So everything in the October 30th memo and all of the discussions that we previously had, this is A-G. Is that correct?

Ms. Young stated it is here for you to have a discussion on. I think none of these are decisions. This was an informational outline of the work that came out of the discussions that the Subcommittee members Commissioners Schmeltzer and Fellman had. It's here for you to deliberate. It's not a decision-making document. It is a document that will help you make the decisions you need to make. It was not a recommendation.

Commissioner Schmeltzer stated it is a way to break out a couple of items from the October 30th letter. If we decide we want to that, then we still have the October 30th letter as information about what a ballpark figure might cost to go forward with other items. This was a way to break out based on the budget guidelines we were discussing of how to move forward. Nothing in the October 30th letter was definitive. There were no decisions made one way or the other. So nothing can eliminate what was said before.

Commissioner Fellman stated given where we are with Item 4, we will have to further define the scope of work based on the input from the Public Utilities Commission, the Department of Energy, and our Executive Officer's conversations with them. I think when we are voting today, we would vote on a concept and an approach, but we would not be voting on a specific scope of work other than I would see we would only impose perhaps a ceiling on how much would be spent on the study. We would allocate dollars for the study.

Ms. Miller stated just to clarify. The plan was that if you approved this conceptual plan, then we would bring the scope of work back to you for approval because we would be entering into a contract based on that. Also a point of clarification, we will be bringing back as a new agenda item in January the final or the next step elements. I don't want to go back to an inartfully draft memo, and I apologize, because I think it's gotten us off on the wrong track. We would come back with the next steps as identified by R. W. Beck and the study, which have to do with acquisition, financing, more longer-range steps in January for development of a scope at that time.

Chairperson Commissioner Gonzalez stated it just seems to me that to the extent that there is a sense that there was a previous discussion as outlined in the October 30th correspondence about the future cost estimates or the implementation of a strategic plan or whatever it's being called at the time. It just seems to me that maybe we should go through the recommendations for what was being discussed there to see if maybe they should be included here. There should be no reason if we are going to direct you to go speak to R. W. Beck about the future work the LAFCo is going to do, that we might as well be asking you to put it together right now. What advantages are there to waiting until January?

Ms. Miller stated there isn't. I was actually thinking that if you approved conceptually what we have offered today, then we would bring the actual scope of work with the contract back to you in January. We wouldn't enter into it without you looking at it and approving it first.

Chairperson Commissioner Gonzalez stated that is not what I was thinking. I was thinking more about if you take any of the issues 1-7 on the October 30th letter, why any of them are not included. It just seems that whatever the Committee discussed to decide what to include or not to include if members of the Commission are indicating that they want to do something in January that is more expansive than what's included here, then why are we hammering it out now?

Ms. Miller stated we don't have to. I think that's clear. The Committee in my mind was given the task of what are the immediate next steps. We have a future work plan that we go over a number of months and maybe even years.

Chairperson Commissioner Gonzalez asked what is the timeline on AB117, Mr. Smeloff?

Mr. Smeloff stated the immediate next step is to intervene at the Public Utilities Commission to help shape the rules. It is our intent to send a letter on behalf of the Mayor and others, and it is my recommendation that the PUC consolidate its proceedings on AB117 into one proceeding so that cities can intervene and our goal would be to get those rules out of the PUC. There is no formal deadline. To move that along as quickly as possible because we cannot submit an implementation plan to the Public Utilities Commission until they develop their rules.

Commissioner Fellman asked isn't that a larger question, Mr. Smeloff, which is not necessarily intervening but perhaps presenting to the California Public Utilities Commission a motion or some kind of request for the rulemaking on AB117 to start a separate proceeding where there's a focus on it?

Mr. Smeloff stated that is our intent. You have said it better than I have said it, but that is specifically what we intend to do is to initiate a request that the Commissioners initiate a rulemaking on AB117 rather than to parcel it out into multiple existing proceedings.

Commissioner Fellman stated and that will be done independent of what LAFCo does with respect to its study, but certainly if we coordinate with your office and DOE and the Executive Officer, the LAFCo study can support or can work with you on that effort.

Mr. Smeloff stated it certainly would be helpful. In our intervention in that proceeding, it would help to clarify the issues that the Public Utilities Commission itself needs to resolve and to facilitate.

Commissioner Fellman stated I think what is not being said clearly, what we need to understand is that in the absence of a kick in the pants, the California Public Utilities Commission isn't taking this on through its own volition. The Commission would probably put more focus on tree trimming in Burlingame. They will look at what's in front of them. This is not one of their top priority policy issues.

Mr. Smeloff stated I think that is absolutely correct. Unless they hear from the cities and interested parties that this should be a priority, it would be put on a back burner.

Chairperson Commissioner Gonzalez stated I am not in disagreement with what the immediate priority is or the need to move it forward. It just seems that in negotiation with R. W. Beck to the extent that there is going to be a discussion about what it is going to cost us, why wouldn't we want to know everything we are going to be trying to negotiate with them price-wise for the coming year? That way we can set up a price for all of it up-front.

Commissioner Fellman stated in the event that we are deciding today that we can establish our priorities, then we can go ahead and do that. I think there was some discussion and we were originally discussing half of our available funds go to implementation of our energy study, which I assume now we are focussed on AB117 and then reserving treatment of the additional half until a future date when there would be some discussion about what that should include. So if you feel, Commissioner Gonzalez, that we can move forward today... I think the discussion was that we would look at January as a time to look at the second half of the money.

Chairperson Commissioner Gonzalez stated I think the only problem with that is a question of budget then. Then everybody will say that there's a priority to do the second part, but if there's no money when we get there, then we are going to have a problem. If we already know it's a priority, then we need to negotiate that up-front.

Commissioner Fellman stated and which is why we said let's take half of the available funds now for what we want to do right away and reserve half that doesn't preclude additional monies out of that second half going to the first order of priority, but at least allowing LAFCo the opportunity to look at that second half of the budget allocation. In the process, we have been able to get a better deal out of R. W. Beck by telling them that there is only so much money available to do the amount of work we want them to do.

Ms. Miller stated if you are concerned about the next step, we can continue to phase the project which is what we have been doing. We can certainly scope the next phase. We don't need a contract for it right now, but we can certainly scope it.

Chairperson Commissioner Gonzalez stated but there wouldn't be a reason that we wouldn't, as we're outlining the work plan, to not be losing some of the things in the October 30th memo, to keep that in there as well with a focus on AB117.

Commissioner Schmeltzer stated I think that's right and that's fine. The money was reserved in deference to your expressed wishes to have other priorities besides energy so that was why it was set aside.

Chairperson Commissioner Gonzalez stated I don't appreciate the deference to me if that was the case, but I think the real question is whether it is going to make a difference in negotiating with R. W. Beck. That's the question. Maybe I don't understand how they negotiate, but it would just seem to me that if we work out a price and come back a few weeks later trying to work out a price for something else, why are we talking it all at once?

Ms. Young stated we can and I concur with that and make it part of the process. We'll scope it out so there's Phase 1, Phase 2 and bring it back with a scope on the agenda and a potential contract on the agenda for your review since you have indicated it is a full Commission review.

Chairperson Commissioner Gonzalez stated tell me what Phase 2 is going to be now.

Ms. Miller stated Phase 2 would be more of the study, the financing and acquisition of PG&E facilities, which would be Items 5-7 from the October 30th letter. Now 5 is a little bit of what we are doing now in the AB117 because they will do some risk analysis but there will also be risk analysis with the acquisition of PG&E. It's on Page 3 of the October 30th letter, he's got the seven steps and the money on the side.

Chairperson Commissioner Gonzalez stated Ms. Young, let's just go through them. Number 1 would not be considered. This was covered, wasn't it?

Ms. Miller stated there is a portion of it. It wouldn't be covered at the extent that they originally, the \$25,000. We negotiated that way down. We've been through that a little bit. They will still spend some time on it, but won't cost that.

Chairperson Commissioner Gonzalez asked and Number 2?

Ms. Miller started it's part of this Phase 1. It's part of the community aggregation analysis and Number 3. Number 4 had to do with them monitoring legislation and which we are not going to have them do. A little bit of Number 5 will be in this first phase because they will do some risk management. The number of speakers that you have had from DOE and SFPUC—they have their own studies and they have a lot of their own information. So a part of the reason why we were able to negotiate the price down was also assuming that we would be working with those entities. They have a lot of their own information. They will have a lot of input so we will get some efficiencies. We won't be duplicating a lot of things. R. W. Beck is already under contract with SFPUC for Hetch Hetchy for a risk management plan.

Chairperson Commissioner Gonzalez stated so it wouldn't exactly be 5, 6 and 7—it would really be 6 and 7?

Ms. Miller stated it would be 6 and 7 with 5, the Risk Management Plan just allocated to 6 and 7. So, it's 1, 2, 3 and a little bit of 5 to risk management allocated to 2 and 3.

Chairperson Commissioner Gonzalez asked and 7 would be?

Ms. Miller stated 7 has to do with the ability to finance the acquisition of 6. These are all future cost models. It is quite complicated. They separated out that component. Does that make sense?

Chairperson Commissioner Gonzalez stated yes it does.

Vice-Chairperson Commissioner McGoldrick stated I am fine with all this.

Commissioner Schmeltzer stated I am fine with scoping it all out now. What I would hope to see assuming we move forward with all of it is that we actually end up with two reports, one on community aggregation and one on the Phase 2 items. I don't think anything we've said here precludes considering it that way.

Chairperson Commissioner Gonzalez stated I agree with that. But, I do think they should be discussed together with R. W. Beck at the time you are trying to price it out.

Ms. Young stated we will definitely have them here and we will also have a proposed contract so when it comes back, you can look at all of those and make the decisions that you need to make.

Commissioner Fellman stated I have a procedural question for counsel. Since we have discussed these together, Commissioner Ammiano, do you see Item 4 as a separate item for a vote, or would you agree that we could meld Items 4 and 5 so we could have one vote on both?

Commissioner Ammiano stated it doesn't matter. I think do it together since we heard them together.

Chairperson Commissioner Gonzalez stated to the extent that we have the items in the October 30th memo, is there any reason we cannot incorporate it into Part 2 of the immediate work plan which is Item 5? So the scope of work for R. W. Beck—if we can include the October 30th memo, the portions related to 6, 7 and 5 as part of 5 and incorporate what Commissioner Schmeltzer said which is bring it forward as two separate things for consideration in January?

Ms. Young stated yes, you can do that.

Chairperson Commissioner Gonzalez asked, can we amend the item orally as discussed that in addition to a – g, that a- g be considered the component of AB117, but that 5, 6, and 7, primarily 6 and 7 of the October 30th memo would be incorporated in there as another area that we're interested in pursuing?

Ms. Young stated so that the public is clear is from the Energy Committee's outline, page 2, you are looking at a – g. From the October 30th memo from R. W. Beck, you are looking at part of 5 and 6 and 7. That there is a scoping element and the direction to bring the information and the contract back to the full Commission in January.

Chairperson Commissioner Gonzalez stated as separate considerations. That way there could be a policy discussion.

Ms. Miller stated and for the public consistent with that will be direction to staff, your Executive Officer to work with the stakeholders being SFPUC and Department of Energy to make sure the scope of work is consistent with their needs in terms of the community aggregation information.

Chairperson Commissioner Gonzalez stated so there is a recommendation that we consider these items together. Unless anyone indicates that they intend to dissent, then I don't think there's going to be a problem. Why don't we do them separately since they're on the agenda separately?

Vote on Item 4 as amended:

AYES: Vice-Chairperson Commissioner McGoldrick, Commissioners Ammiano and Schmeltzer, Chairperson Commissioner Gonzalez

NOES: None

ABSENT: Commissioner Hall

ACTION: Approved as amended.

Chairperson Commissioner Gonzalez asked if Commissioner Fellman is an alternate for any of the absent members?

Ms. Young stated only for the public member.

Vote on Item 5 as amended:

AYES: Vice-Chairperson Commissioner McGoldrick, Commissioners Ammiano, Schmeltzer, Chairperson Commissioner Gonzalez

NOES: None

ABSENT: Commissioner Hall

ACTION: Approved as amended.

6. Discussion and action regarding the Mayor's Budget Office Request for a Three Percent Cut to the FY 2002-03 Budget to Assist in Balancing the Budget (Discussion and Action Item).

Ms. Young stated this item is before the Commission for your discussion. The Mayor's Policy Instructions for the Budget for Fiscal Year 2003-2004 included that all City departments as well as agencies that are funded through the City and County of San Francisco review their budgets in order to submit to the Mayor's Budget Office three-percent cuts in the budget for Fiscal Year 2002-2003. This is before you for your discussion. You are a separate agency, and this decision is before you in terms of whether or not you wish to reduce your budget by three percent. If you were to reduce your budget, which is \$448,969 by three percent, that would be \$13,469. That is a decision for the Commission to make.

Vice-Chairperson Commissioner McGoldrick asked do you have any recommendations where that money would come from?

Ms. Young stated from our professional services contract. I have spoken to our legal counsel. We have set aside as we have said \$200,000 for the studies. The

other \$100,000 has been used for legal counsel. We anticipate that for the next six months, there could be a total of about \$36,000 in legal counsel which leaves us with about \$13,000 out of that \$100,000 that we could use to offset the request if the Commission chose to do so.

No public comment. Public comment closed.

Vice-Chairperson Commissioner McGoldrick asked is there also a contingency plan given the fact that we have heard further bad news from Sacramento and also the problems locally that we are all going to anticipate there?

Ms. Young stated we will come back to you at a future date. The departments on behalf of the Board of Supervisors have been looking at four percent cuts as well, but that has not been requested from the Mayor's Budget Office. Simply the three percent cuts that were due December the 9th. Since our meeting was after that, this is the first opportunity we could deal with the three percent cuts.

Chairperson Commissioner McGoldrick stated that the Commission would take the action to enforce a three-percent cut to the budget.

7. Request from Commissioner Gonzalez to Discuss and Act on Meeting Twice a Month. (Discussion and Action Item).

Chairperson Commissioner Gonzalez stated since a couple of our Commissioners are gone, I think we can take this up at the next meeting. My thinking on it is that we try to schedule twice a month and cancel meetings as opposed to working to find dates that everyone can attend.

Commissioner Schmeltzer stated the Item mentioned the first and third Friday and the calendar showed something separate.

Ms. Young stated the agenda reflected something different than the memo and was corrected.

Vice-Chairperson Commissioner McGoldrick stated if you look at the twelve month calendar that is attached, the second and the fourth are the predominant dates, but there are at least two months where the first and the third are indicated, and then there is one month where the third and the fifth are indicated. I think there might be a little bit of spottiness there that might affect our schedules given the fact that some of us have other Friday meeting commitments. Mondays, given the fact that we are moving the Board of Supervisors meetings to Tuesdays--Mondays become blank as far as our consideration of moving to Tuesdays was concerned because we are trying to reserve Mondays for preparation for Tuesdays. So I think Fridays may become meeting dates for Board of Supervisors Committees and in that regard that may interfere with LAFCo or LAFCo may interfere with meeting dates. So we have a lot of considerations.

Ms. Young stated I think the Commission can make their decision in January and no later than February those can be factored into the planning of the new President with respect to the Committee meetings. I would just correct the record to indicate that what you have before you is a calendar as the agenda was corrected reflects that is twice a month. So that is a discussion you can have what those two dates twice a month on a Friday might look like. It was just a sample for you to review.

Chairperson Commissioner Gonzalez stated I think it is a good point that the dates that the Board meets is going to change, and we have to consider everybody's availability. We will take it up in the January meeting.

No public comment. Public comment closed.

This item has been continued to the January meeting.

9. Future Agenda Items.

Ms. Miller stated I think it might have been encompassed in our amended motion. What we are bringing back in January is an agenda item with the scope of work and budget for the second phase of the R. W. Beck which includes PG&E acquisition, the financing plan, and the risk management study.

No public comment. Public comment closed.

10. Public Comment on Items not on the Agenda.

No public comment. Public comment closed.

11. Adjournment.

The meeting of the San Francisco Local Agency Formation Commission adjourned at 12:00 p.m.

